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BOOKS OF THE MONTH

A Gallery of Literary Portraits

By P. W. WILSON

EVERY nook and corner in the rambling old palace of literature contains family portraits of men and women who attain immortality after their work on earth is done. These biographies, these expressions of life in language, are contemporary; they are also retrospective.

Of the men who are in charge of the New Deal, Roger Babson gives a clear account in his *Washington and the Revolutionists* (Harper's). In what is really a handbook of personalities and policies, full of impression and information, President Roosevelt and his colleagues are, as it were, brought up to date.

Woodrow Wilson refused to write his memoirs. He preferred to respect what he called his historic sense and to hand over his papers to Ray Stannard Baker, who documented the record. But as a superman David Lloyd George, like others, intends to have his own say, and of his *War Memoirs* (Little, Brown) two volumes have appeared. With detached benevolence rivals are appraised, and since the right must also be readable anecdotes are added as the spice of the program. The climax and anti-climax of the first Welsh career in English history are chapters to be included "in our next."

A commentary of supreme value is the *Intimate Diary* of that selfless Boswell, Lord Riddell (Reynal & Hitchcock), who, inseparable from Lloyd George, kept daily a journal of the table talk on Olympus. The entire book is packed with the quotable—for instance, this incident: At the signing of the protocol, "Clemenceau had to shake hands with the German delegate. He said to L. G., 'I spat on the place in order to commemorate it.'" So was concluded the war to end war.

The period of recovery produces Mohammeds. Divorced from art, their authorship is authority and power drives the pen, like the sword, into the vitals of thought. Mercifully abridged in translation, *My Battle*, by Adolf Hitler (Houghton Mifflin), is no more to be criticized than the Koran.

The biography of *Lenin*, by Ralph Fox (Harcourt, Brace), draws aside the curtain. We may or may not agree with Mr. Fox—a devotee of modern immediacy—that "for the

first time in history a man at his death was mourned in every country of the world." But we see the man and watch, year by year, just what it was that happened to him that decisive day in Switzerland when he heard of revolution in Russia and, shutting up his notebooks, determined on "no more libraries"; and the astounding sequel how thought was transformed into action. It is the real story of Lenin that is here told. Within sixty-four pages, Clara Zetkin compresses her *Reminiscences of Lenin* (International Publishers), and here again we are shown the man—the czar of the Kremlin, new style—grim and jesting as the Romanovs themselves, and clothing his fanaticism, as did his predecessors, in a gorgeous vesture of phraseographic formulas which in him were as ecclesiastical as a sacrament.

Allan Monkhouse, the British engineer tried by the Soviet Republic for sabotage, has written a book, *Moscow—1911-1933* (Little, Brown), which is, in the circumstances, surprising in its balanced perspective. With detachment and restraint, he surveys the Russian Revolution as a drama of which for twenty-two years he was continuously an eyewitness. On one canvas, as in a medieval altarpiece, there are painted successive scenes: first, the Czarism, then the Chaos and finally the Commune. For ten years another Englishman, Alexander Wicksteed, has lived in Moscow, where he is a teacher. His frank and factual account of social and economic conditions, entitled *My Russian Neighbors* (McGraw-Hill), is an interesting illustration of the liberty to speak one's mind that, despite all censorship and surveillance, is permitted and even encouraged under the Bolshevik régime.

Communism, as we are apt to forget, is not the only international. There is also Christianity, and the life of *John R. Mott: World Citizen*, by Basil Mathews (Harper's)—detailed and appreciative—may be summarized as the narration of a prolonged attempt to inspire and to mobilize men of good-will wherever they may live and whatever may be their

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allegiance. On one occasion the late Augustine Birrell was asked to explain why he was defeated in an election. "There were not enough of us," was his reply. If the world is swept by wars and rumors of war, it is because there has not been enough of the vision that is in John R. Mott.

It is Dr. Mott who contributes the foreword to a new life of *Mahatma Gandhi* (Winston), by Bishop Jashwant R. Chitambar, a Christian Hindu. This book may be described as antiseptic. On the one hand, Dr. Chitambar, absorbed with greater messiahs than the Mahatma, is immune to the customary epidemic of indiscriminating adulation. On the other hand, he values what, in Gandhi's character and influence, can never be too highly valued. The book will not satisfy those to whom India is an emotion, whether of hope or hatred. It is the product of India as a civilization.

As King Edward I was the Hammer of the Scots, so is John K. Winkler the Hammer of the Millionaires. To heave a brick at anybody who has the effrontery to look like a banker is his habit, and those who read *Morgan the Magnificent* will be prepared for the bombardment that is inflicted on the Stillmans, who accumulated what is described as *The First Billion* (Vanguard Press). Even a Vanderlip receives attention. To him, according to the Winkler idiom, "economics was just duck soup."

The millionaires have their moments. In the two volumes of *Miscellaneous Writings of Andrew Carnegie*, edited by Burton J. Hendrick (Doubleday, Doran), what astonishes us is the ironmaster's genuine enjoyment of the best that he could discover in art and letters. Here are books to be picked up at an odd moment and opened anywhere. Always there is some remark that, coming from Carnegie, is arresting and characteristic of his period. With a complacency that is charming rather than prophetic, he contrasts the "ferment" in a Britain where "drastic changes in almost every institution" were perpetually demanded with the "settled, stable system, loved and admired by all," in the United States, where "the people were, politically speaking, at rest" and their affairs "fixed."

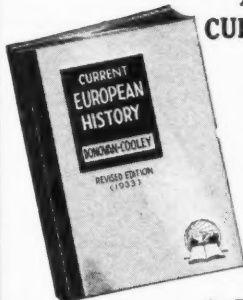
It is not only as a littérateur but as a diplomatist until death that Jean Jules Jusserand, the much-loved Ambassador of France at Washington wrote—as he puts it—*What Me Fefell* (Houghton Mifflin). Nor had he time, during the years of his retirement, to finish an autobiography, issued posthumously, that would otherwise have covered the Presidency of Woodrow Wilson. It is the old order that, with discretion, he describes.

The correspondence of celebrities, when

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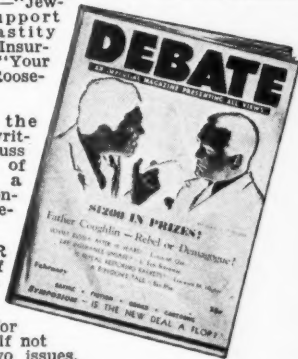
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spontaneous, may be defined as autobiography in carpet slippers. The letters of a youthful Romain Rolland and a venerable Malwida von Meysenburg, now published after forty years by Henry Holt, with an introduction, are Romain Rolland gazing at another mind as a mirror of his own and so exchanging reflections. A tidbit? How about this? Rolland went to Bayreuth and exclaimed: "What a marvelous orchestra! But how ugly and pretentious were all the actors! How they strutted on their stilts! How they brayed! What jerky gestures they made!" Over opera Rolland thus agreed with the late Prime Minister Bonar Law that it would be tolerable but for the singing. However, he visited "the charming Zucchi," whom he had "adored at Rome," and adds: "She received me in *négligée*; the whole house was perfumed by the onions she was frying."

In authors mutual admiration is the highest attainable altruism. Miss Marguerite Steen, herself a novelist, has thus extolled *Hugh Walpole* (Doubleday, Doran) as the restorer of the romantic. A tribute, so outspoken, challenges attention, and if, personally, we prefer to read good books rather than books, however good, about other books, it is merely attributable to prejudice.

D. H. Lawrence, in his apotheosis, is no longer an author but a religion, and in his worshipful if select communion orthodoxy is imposed upon the heretics. As editor of the *Athenaeum*, John Middleton Murry—an Arius of the faith—actually had the audacity to reject certain of the Lawrentian infallibilities, submitted to him for publication. In his *Reminiscences* (Henry Holt) Mr. Murry deals with these and other no less distressing impieties. His view is broadly: "Mr. Lawrence is like the little girl—when he is good, he is very, very good; and when he is bad, he is horrid." Apparently this confession has not wholly satisfied inquisitors, who are seeking, by third degree, to lure the wanderer back to the fold.

In the court of celebrity there are queens who reign by their own right and, to their other scepters, they add the pen. Alice Roosevelt Longworth recalls her *Crowded Hours* (Scribner's), nor can admirers of a piquant princess republican sit in the seat of the scornful unless first they read what, at many points, is a human and interesting story. Margot, Countess of Oxford and Asquith, may be irrepressible. But there are multitudes who want to know what next she has to say, and her latest book, *More or Less About Myself* (Putnam's), with all its imperfections, contains the kind of tittle-tattle that people like, with flashes of a deeper insight.

There are still actresses outside Hollywood,

and two of them inscribe their careers on the humdrum scroll of a sister art. Eva Le Gallienne, having arrived At 33 (Longman's), discloses her age, and to those who enjoy the gossip of the green room—how plays are produced, the rehearsals, the successes, the failures—this volume will make the usual appeal. The legitimate stage is also represented by Lillah McCarthy, now Lady Keeble, who writes of *Myself and My Friends* (Dutton). Here we have the Greek goddess pacing Parnassus itself, the commonwealth of literature as a caste where George Bernard Shaw utters, as a septuagenarian Jupiter, "an aside" from his throne, and the Barries, the Masefields and the Galsworthys share the sovereignty of success. This book is a contribution to the annals of dramatic culture.

There are also women who dwell in the background where no limelight falls. Of recent biographies devoted to the now dominant sex, the story that Nella Braddy tells of *Anne Sullivan Macy*, who taught Helen Keller (Doubleday, Doran), is, as it seems to us, by far the most absorbing in its permanent interest and value. Life itself is here the only drama, and it is sufficient.

Into every corridor of the mansion of memory, however remote and laden with dust, some tourist with a flashlight leads a search-party. As usual the King's gallery is crowded. The ninth centenary of William the Conqueror in 1927 inspired Sarah Benton to write for the Dial Press a vivid biography in which all the hatchets and all the cherry trees of tradition were duly honored. Scribner's now publish a biography of the Conqueror by Phillips Russell, a merit of which is that the acquiescence of England in the Norman rule is explained. Law, however severely enforced, was at least an emancipation from Harold's oligarchy.

From the fadeless tapestries of the Middle Ages, du Guesclin again rides forth *cap-à-pie*—the hero of combative adventure, described by M. Coryn as *The Black Eagle* (Funk & Wagnalls), and having told the story of the Borgias, L. Collison-Morley turns with amazing enthusiasm to *The Sforzas* (Dutton). One is provoked to ask whether, five hundred years hence, our own civilization will prove to be as fascinating to future generations as old Europe is to us.

As actors are ill-content until they have played Hamlet, so do biographers whet their wits on the enigma that was *England's Elizabeth* (Houghton, Mifflin). In this third book on the era of the Virgin Queen, Milton Waldman does not attempt to cover the whole of an astonishing life, but, like Strachey, deals with a phase. Strachey was interested in Elizabeth and Essex; this book alludes to the

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earlier romance with Leicester, and the view is taken that, beyond dispute, Elizabeth—despite serious courtships—became, in the meantime, her favorite's mistress.

Of Bloody Mary, or *The Crimson Queen*, as in courtier style he names her, Daniel Henderson has written a straightforward account, while Harper's publish a translation by Warren B. Wells of Jean H. Mariejal's study of Mary's husband, *Philip II, The First Modern King*, which title, applied by a recognized historian, suggests an approach to "the Devil of the South" that, to some of us, is unusual. To Hilaire Belloc, *Charles the First, King of England* (Lippincott) was the last Britisher to whom executive kingship was actual—which, also, is an interesting thesis.

Stephen Graham now adds to his admired portrait of Ivan the Terrible a companion picture of *Boris Godunov* (Yale University Press), a grim ruler, indeed, whose reign persists to this day as opera. From this strong meat it is, perhaps, with a smile that we turn to "two hundred new letters," unearthed at Gotha by the indefatigable Hector Bolitho and entitled *The Prince Consort and His Brother*. These gentle feathers from the wings of Queen Victoria's Angel are wafted over the landscape, pure as the flakes of driven snow and, perhaps, as evanescent.

The period of Europe's awakening was prolific in personalities. The Viking Press issues Ralph Roeder's composite and brilliant study of what he calls *The Man of the Renaissance*, in which he includes Savonarola, Machiavelli, Castiglione and Aretino.

Inevitably Luther is again in the forefront. Abram Lipsky writes of him as *Germany's Angry Man* (Frederick A. Stokes)—a book of solid merit, illuminated by a fascinating style. In much detail, expressed in pithy paragraphs, frequently compressed into a single line—which is, in its way, a literary achievement—B. K. Kuiper confines himself to Martin Luther's "formative years" (Eerdmans). It is a book that as an expression of Lutheran feeling has an importance, if only for its sincerity.

Poet's Corner, always hospitable to prose, enshrines that artist in egoism, *Samuel Pepys—The Man in the Making*, from whose intelligent countenance Arthur Bryant cleans the dust, revealing the features fresh and authentic. It had not occurred to us that *Dorothy Wordsworth*, with her absorption in a brother's genius, was, as one reviewer puts it, a Lady of the Lakes (Oxford University Press). As a neighbor at Grasmere of Gordon Wordsworth, the poet's grandson, Ernest de Selincourt has had access to the archives

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CURRENT HISTORY

MARCH 1934

Britain Muddles Through

By J. A. SPENDER

[Mr. Spender is a distinguished English journalist who was for twenty-six years editor of the *Westminster Gazette*. He is the author of more than a dozen books, including a biography (in collaboration with Cyril Asquith) of Lord Oxford and Asquith.]

NOTHING in recent years had been more difficult to judge rightly than the economic condition of Great Britain. Until a few months ago it was a commonly accepted belief that she was in a state of continuous decline, and she seemed herself rather to acquiesce in this judgment than to resent it. The general impression was heightened by her candid habit of broadcasting her figures of unemployment and by the frank reports in which royal commissions and expert committees exposed the skeletons in her cupboard. Nevertheless, this general impression was, if not wholly wrong, at least profoundly misleading.

It is of course true that certain of Great Britain's basic industries—coal, cotton, iron and steel—depending for their prosperity upon exports, have

been greatly depressed since the war, and that unemployment, being concentrated in the areas in which these industries are situated, has taken on a peculiarly painful form. But on the other side, there have been evidences in the life of the people of a diffused prosperity such as no Englishman of my age can remember in his lifetime. All through these years of depression the great mass of the working people have been drawing higher wages, have been better fed, better clothed, and able to spend more on sport and pleasure than ever before; even the unemployed have drawn allowances exceeding in many cases the wages of unskilled labor before the war.

The paradox was so glaring that it was supposed that the British people were living on their capital and therefore heading for bankruptcy. But, in fact, savings were on a higher level than before the war; banks were cluttered with money demanding investment; large sums were still being lent abroad. The people were carrying on their backs a debt of more

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than £8,000,000,000, supporting from 2,000,000 to 2,500,000 unemployed, financing their expensive social services—old-age pensions, widows' pensions, sickness and accident insurance—and doing all this without any serious privation, and even with a distinct rise in the standard of life for immense numbers.

I say without serious privation for the country as a whole, but qualifications must be put in for various classes. Among the workers a large family on the dole may easily be in deep poverty unless the wife has great skill in management. A few weeks ago an investigator into unemployment stirred public feeling by saying that 6,000,000 people—men, women and children—were short of food. Thirty years ago when unemployment was at the normal pre-war level (1903) Campbell-Bannerman asserted on the authority of Charles Booth that 12,000,000 were "underfed and on the verge of starvation." The figure, whatever it may be, is not a specialty of these times, but we recognize it to be deplorable.

If we turn to the well-to-do classes, the very rich, who pay upward of 11 out of every 20 shillings in income tax and super-tax and a third to a half of their possessions in death duties, have undoubtedly had to make large retrenchments. Great country houses have been sold and converted into hotels and schools; many big London houses, including some of the noblest of eighteenth-century mansions, have been demolished, and shops, offices and flats erected on their sites. The way of life of the rich and aristocratic has greatly changed. Instead of spending the chief part of their income on their country estates, a large number of them now live the greater part of the year in London or on the Riviera and apply the cash set

free to the sports and pleasures in favor with their young people. If the big establishment is given up, enough remains, in spite of income tax and death duties, to keep this class in the state of expensive activity recorded by the picture papers.

The really hard case is that of elderly professional and business people who had saved what they supposed to be sufficient to keep them in old age, and now between taxation and failing investments find themselves in straitened circumstances when it is too late to make a fresh start. This class, and with them the numerous spinsters and widows drawing small incomes from trustee investments, has been severely hit by the war-loan conversion from 5 to 3½ per cent. But even these are relatively well off compared with the rentier classes in other European countries.

The present financial situation is one which any Chancellor of the Exchequer of the pre-war period would have declared to be totally and utterly impossible, and which most European countries have found to be so. In 1909 the country was thrown into convulsions and a great constitutional crisis precipitated because Mr. Lloyd George proposed to raise £14,000,000 in new taxes. Last year a Conservative Chancellor of the Exchequer gave away just that sum in a remission of the beer tax, which he treated as an inconsiderable item in a budget of £700,000,000. That taxation on this scale would bankrupt industry and starve a multitude would have been the unanimous opinion of orthodox financiers twenty years ago. That it could go hand in hand with a rising standard of life for the great majority and comparatively little discomfort for the minority, they would have held to be demonstrably impossible.

What is the explanation? First, of course, a considerable part of this taxation represents not a sacrifice but a redistribution of wealth. If Peter is robbed to pay Paul, both Peter and Paul are still Englishmen, and the money remains in the country. A large part of the £300,000,000 needed for the service of the national debt goes back into the pockets from which it is taken; a large part of the money raised for unemployment insurance, old-age pensions, sickness and accident insurance goes from the pockets of the richer English into the pockets of the poorer English, but represents spending power in the country. This redistribution of wealth is on the whole good. It has done something to redress the inequalities of rich and poor; it has tided the poor over a difficult period without grievous hardship. Great Britain has, in consequence, been able to avoid the deep distress that followed the Napoleonic wars and, so far, been saved from social strife.

The sacrifices required of the rich have on the whole been to their advantage. Apart from any question of social order, they have an enormous interest in maintaining the credit of the country, and for them as for all wealthy people in Europe since the war it has been a choice between sacrificing a considerable part of their income in taxation or seeing their capital values dissolve in a débâcle of credit and currency. It may be claimed for the wealthy and well-to-do in Great Britain that they have had the good sense to choose the lesser evil without overmuch grumbling.

But when all this is taken into account, it still remains to be explained how in these supposedly depressed times the money has been earned to render possible both the largely increased expenditure by the State and

the generally higher standard of life among the people. In Great Britain, as in America, there has undoubtedly been a large increase in the output of industry since the war. The World War was unlike all other wars in that, owing to the enormous demand for supplies and munitions during the four and a half years of the struggle, it left industry equipped with a productive capacity which it would scarcely have developed in twenty years in normal conditions. This has had the double effect of enabling Great Britain to produce new wealth with unprecedented rapidity and of creating the new kind of "technological unemployment" which has characterized all industrial countries since the war. The unemployment has been most in the public mind, and has masked the industrial activity which has enabled Great Britain to support the unemployed and, in spite of falling profits and shrinking foreign trade, insured a fair measure of prosperity for the country as a whole in the years of depression, so-called.

While visiting a large number of industrial centres in America during the Autumn of 1927 and the Winter of 1927-1928 I came to the conclusion that, if comparable statistics could be obtained, it would be found that as regards unemployment the condition of the United States and Great Britain was very much the same. In both alike labor-saving machinery and mass-production were throwing large numbers of workers out of their jobs, and it seemed that some organized method of dealing with unemployment was nearly as necessary in the United States as in Great Britain.

But there was a confidence in America which there never was in Great Britain that unlimited demand would attend unlimited supply, and unemployment was regarded as a tempo-

rary manifestation which would pass as new industries grew up to meet new demands. Doubts as to demand haunted all British industries and the open expression given to them led to the belief that Great Britain was in the trough while the United States was on the crest of the wave. But Sheffield in England, like Bethlehem in America, was producing 50 per cent more steel with 50 per cent fewer workmen than in its best year before the war, and in England even more than in America a large number of small new businesses were making substantial profits at a time when the old-established basic industries were languishing.

In the year 1926, supposed to be one of the worst years, I happened to be traveling to India, and found myself in company with a German business man, who had lived in England for many years before the war and had just been on a business trip in all parts of the country. He declared that never in his experience had he seen such industrial activity and prosperity in the midlands and southern part of England as he had just witnessed, and he said he entirely declined to believe in the common talk about "British depression." He was both right and wrong. There was very real depression in the north of England, but it was largely compensated for by a new activity in the midlands and the south of England, accompanied by a tendency to migrate from north to south.

Great Britain has had two major crises in the last fourteen years, one the great labor conflicts—general strike and coal strike—of 1926, resulting from the premature return to the gold standard in the previous year and the effort of the coal-owners to retrieve their export position by reducing wages; the other the storm

which, following the American slump and coming to its climax in the budget crisis of 1931, led to the formation of the National government, the departure from gold and eventually the abandonment of free trade.

Both these crises raised fundamental issues which tested the British political character to the uttermost. In both alike the reaction was to order and sobriety as soon as the situation was understood. In 1926 the general strike was called off the moment the responsible leaders of labor realized that, if it continued, it was bound to develop into a revolutionary struggle with the government. In 1931 the vast majority of the electors were ready for any sacrifice to restore the situation when they grasped the nature of the catastrophe that threatened. Socialists might argue that an inflationary policy which left the budget unbalanced and borrowed freely for the diffusion of spending power among the unemployed was in the line of progress, but the danger to a trading community of losing its credit was an immediate fact which was easily apprehended by the "nation of shopkeepers."

It would be idle to deny that both these occasions were heavy setbacks in the field of international trade, but they had remarkably little effect on the internal life of the country. The departure from gold, though regarded as a disaster at the time, gave the British export trade a new opportunity and restored Great Britain her lead among the exporting nations. The effect of the new tariff policy is more dubious, but about that I speak as an impenitent Free Trader. To expect Great Britain to remain the solitary open market—to be, as Protectionists put it, the dumping ground of all the tariff nations—was perhaps to ask of human nature more than it was

capable of giving. In that sense the new policy was a stroke of fate and it may for a time, like all short-term remedies, give a fillip to British trade.

But the major and permanent interest of Great Britain is to get tariffs down, and against the temporary advantages that she may reap by adopting the universal policy of exclusion must be set the loss of her example and leadership at a moment when there is universal acknowledgment that tariffs collectively are an immeasurable evil. She is moreover little used to the technique of tariffs and the extremely complicated arrangements by which tariffs against the foreigner have to be adjusted to imperial preference. Her supplies of essential foodstuffs are regulated by quotas which are empirical and vexatious, and, apart from their protective incidents, a serious hindrance to the free flow of goods upon which the British export trade and, above all, British shipping, depend.

The British flatter themselves now that they are on the upgrade. Revenue is coming in unexpectedly well; most trades report improvement; there has now for nearly a year been a continuous decline in unemployment; the Clyde has booked more orders for shipbuilding in three months than in the whole of the previous year; exports seem gradually to be expanding. The British are cautious in their estimates, but a gradual upward movement for nearly a year justifies hope.

The National government, as is the way of governments, claims the credit for these improvements, and undoubtedly it served Great Britain well in the crisis of 1931. But it lost a good deal of its "National" character when its Liberal and Free Trade members seceded after it had definitely adopted protection, and in spite of the fact that Ramsay MacDonald is still Prime Min-

ister, the Conservative element in it is so preponderant that it is in danger of appearing in the public eye as an ordinary Tory administration. It has suffered serious setbacks at by-elections in industrial constituencies in which unemployment is still the main issue, but it has an enormous margin of strength which, if trade improves and it avoids serious blunders, should carry it through one more election. Its principal danger is that in the effort to remain "National" it should be in fact nothing and incur the general indifference and contempt which has usually befallen coalitions in England.

Certainly nothing could be more dangerous than that it should suppose itself to have a monopoly of power, or that it should give itself the air of being superior to ordinary governments. The British people are in the mood for all sorts of experiments, and the elector watches patiently and good-humoredly while all sorts of governments, Coalition, Tory, Labor, National, try their hands. He gives them all a certain amount of rope, but wakes up and turns them out when he thinks that they have had enough time or made some unpardonable blunder.

Great Britain had two periods of Labor and Socialist government, a short period in 1924 and a longer one from 1929 to the crisis of 1931. Both saw minority governments depending on the support of Liberals and Radicals, whose complaint on both occasions was not that Socialist Ministers were too advanced, but that they did too little to justify their existence. Socialist governments, so far, have fallen between two stools. They find, when they get into office, that they cannot carry out the large schemes which have figured in their programs—abolition of private profit, all-round nationalization of industry and banks—without bringing the

credit structure about their heads, and they have not the skill and patience or the parliamentary experience that enabled the old Liberal and Radical party to carry progressive legislation against Conservative obstruction.

The Left Wing Socialists have announced that next time they will make quite sure by seizing the banks, abolishing the House of Lords, suspending Parliament and governing by orders-in-council the moment they get into power, but this announcement has divided their own party, and is more likely to keep them permanently out of office than to induce the electors to give them the opportunity of trying these experiments. On the other side there are the incipient Fascists, who prance about in black shirts and profess to be spoiling for a fight with the would-be proletarian dictators, but it is certain that John Bull will not let his politics be reduced to a scrimmage between these factions.

What, it may be asked, meanwhile, of the British Liberal party, "the illustrious Liberal party" which for nine years before the war was continuously in power? As I write I see it reported that a leader of the Republican party in the United States says that "the whole world is leaning more and more toward liberalism," and that he advises his party to conform to the general drift. In another column of the same paper I read that Hitler is adjuring the German people to have done with "the superstitions of an outworn liberalism," and the same exhortation comes periodically from Rome and Moscow. It is encouraging, from any point of vision, to find that the general drift appears to be toward liberalism, but the eclipse of liberalism as an organized political force has everywhere to be reckoned with

in Europe, and is perhaps the most important fact in the politics of Great Britain.

The British Liberal party suffered a blow from which it has never recovered at the "victory election" of December, 1918, when Lloyd George's Coalition Government called for a vote of confidence and ruled out all candidates who were not prepared to give it unconditional support. The independent Liberals returned from that election a mere handful, and, what was more important, they had to concede the title of regular "Opposition" to the Labor party, which numbered a few more survivors. The practical British elector regards the regular Opposition as the alternative government and considers his vote wasted if given to a party which has apparently no chance of coming back strong enough to form a government. That situation, once established, tends to perpetuate itself, and Labor has had the further advantage of being able to appeal to the class loyalty of the workers and to outbid almost any program that a Liberal party can offer.

The Liberal party has nevertheless had great influence even with its reduced numbers. It kept protection at bay for fourteen years after the war, and might have done so much longer if the tariff issue had been submitted to the country instead of being part of the vague omnibus program which Mr. MacDonald called his "doctor's mandate" in 1931. It has so far been in a position to decide whether Labor should take office and upon what terms it should remain in office, and its voting strength in the country is still of immense importance to both the other parties and will probably go far to decide their fate at the next election. If Great Britain had proportional representation the Liberals could probably save the country from

having always to make the choice between perpetuating a Conservative régime and giving power to Socialists.

That the present grouping of parties will be permanent, no one can think. The National government, by its tariff policy and its lack of positive leadership in home and foreign affairs, has lost a good deal of the support which brought it into power for the emergency of 1931. Coalition or National governments inevitably proceed by compromises, and compromises do not kindle enthusiasm, however meritorious they may be.

There is unrest in all the political camps. The Conservative party has an active diehard section, which makes no secret of its desire to be quit of the "National" coalition, and reassert itself on purely Conservative lines. The Labor party is divided between left wing and right wing; the Liberals between a majority which has broken loose from and a minority which clings to the National government. Memories of the swift and skillful manoeuvres by which the Tory party discarded the Lloyd George coalition after four years of it are a warning to be prepared for sudden developments as the general election draws near. New combinations in which the old Liberal party will reappear as a Progressive Centre party holding the fort against the extremes of either toryism or socialism are among the possibilities, perhaps not of the immediate future, but certainly of the next five or six years.

In the meantime the political boundaries are highly confused. Conservatives have inbibed a good deal of the old Liberalism and not a little of what used to be called Fabian socialism. Liberals boast their emancipation from nineteenth-century individualism. All the parties have their "planners" and their "brain trusts" evol-

ing constructive programs in a free atmosphere in which the dogmas and principles of the old politics are of little account. The National government has taken agriculture in hand, and speaks—at present rather vaguely—of large schemes for the reorganization of basic industry. The Roosevelt recovery plan is watched with a breathless if rather fearful interest, and its results, whatever they may be, will greatly affect Great Britain's internal politics.

The British habit is still to judge by results, and the people demand of their planners that they shall plan successfully. They are disturbed when their Minister of Agriculture finds himself with a plethora of pigs which cannot be sold without spoiling the market, or a sea of liquid milk for which there is no demand and no visible use. He adjures the people to eat more bacon and drink more milk, and they will do their best, but they are a little less certain about letting his colleagues loose on coal, or iron, or steel.

Never in living memory has there been such awareness of political problems in young and old, or have so many busy brains been at work on what are called constructive policies. It is all to the good; the stir of life and thought and the determination of the young people to think for themselves gives one confidence in the future. If Great Britain is an old country, her youth is very much alive.

The British people as a whole have, however, been true to type whenever they have been tested in the mass, and so they will remain. They have certain rooted ideas about sound money and good business; they are skeptical of experts and theorists and all who promise the millennium by return mail, but they have listened very earnestly to those who tell them that their star is waning and that their

methods are out of date, and, while seeming to acquiesce, they have done a great deal of quiet work behind the scenes, the results of which are beginning to be seen. They are slow in the uptake, but pretty quick when they are convinced that a thing works, and though they seem to "muddle through," they generally, or very often, get through. Self-depreciation is their most characteristic form of humor, and their competitors will probably be wise to take them at a little more than their own valuation.

But no European nation, and least of all Great Britain, can live for itself alone. For Great Britain especially, with her dependence on foreign trade, any considerable stride forward depends on world recovery and world peace. Great Britain has her isolationists, but their idea of renouncing all but imperial trade and finding security in armaments seems to most of their compatriots neither pacific nor practicable. The British Empire with its innumerable contacts in all parts of the world would be very unlikely to avoid challenge, if it presented this face to its neighbors. Security for Great Britain lies still in cooperating with her neighbors to keep the peace. In the conditions of modern war, it becomes more and more unlikely that she should escape being involved in any struggle among her neighbors except at the price of submissions which she should be unwilling to make.

The European scene changes so rapidly that it would be unwise to speak in detail of any particular phase. But in general it may be said that the Central European problem is still that which was left unsolved

when the United States Congress rejected the proposed tripartite agreement in 1919—to persuade the French that they are safe against a German *revanche*, or, alternately, that they can depend on the support of their neighbors in case of a German aggression. It was thought that the solution had been brought nearer when the Locarno treaties had been signed and sealed and Germany joined the League of Nations. But Hitlerism and Germany's departure from the League have revived the problem in an acute form, and a new start has had to be made to find a guarantee of the peace that will enable disarmament to go forward.

The situation is rather less dangerous than might be inferred from excited speeches and newspaper articles. The doctrine of the Kellogg Pact that war is not a legitimate instrument of policy has got a real lodgment in the European mind, and the atmosphere in which foreign affairs are debated is far different and more civilized than that which is revealed in the disclosures of pre-war diplomacy. The feeling that war is an incalculable hazard in which no victory can be presumed also has its weight. But it is more and more evident that nothing short of a collective guarantee in which all the guarantors are pledged to common action against an aggressor will make a tolerable peace. If this fails, the nations go back not necessarily to war, but to competing armaments and balanced alliances which will waste their resources and keep them in a state of fear. Adhesion to the League of Nations is not a mere sentiment, but the practical and sole alternative to this relapse.

Is It a New Deal?

By ABRAHAM EPSTEIN

[An authority on American social conditions, Mr. Epstein is also the author of numerous works on social problems, the most recent being *Insecurity: A Challenge to America*.]

ECONOMIC security is today the foremost American problem, a problem accentuated, but not created, by the depression. Ever since the United States joined the ranks of industrial nations and the supply of fertile free land was exhausted, American wage and salaried workers have been confronted with the all-menacing problem of economic insecurity. Wage and salaried workers depend upon their toil for a livelihood, and every factor which interrupts the opportunity for daily toil immediately brings them face to face with dependency and poverty. No fundamental solution of this problem has so far been offered by the Roosevelt Administration's program.

Even in "prosperous" times the forces militating against a steady income are many and compelling. Every year over 3,000,000 workers are deprived of their regular wages for short or long periods through industrial accidents. Each day finds from 2,000,000 to 3,000,000 people incapable of earning their living because of sickness. Several million old people are prevented from earning an independent livelihood, either because of physical or mental incapacity, or merely because no one would give them a job. In the best of times from 3,000,000 to 4,000,000 persons are without work because modern industry requires a standing army of unemployed. At all times the great ma-

jority of workers are confronted with the problem of insecurity because, in case of death, they are unable to provide for their widows and dependents, or because the wages they earn are not sufficient for the maintenance of their large families.

The depression not only has extended these permanent and continuing forms of insecurity to greater numbers of wage-earners but has brought insecurity to those groups and classes which formerly considered themselves more or less safe against any economic disaster.

The causes of this insecurity are continuous and deeply rooted in the very structure of our competitive society. Alternate periods of seeming prosperity and deplorable depression, with all the distress and insecurity which these entail, are of the very flesh and blood of our modern industrial organism. Hazily and vaguely, America is coming to recognize an association between the forces of insecurity and the lack of purchasing power on the part of the masses. The relationship of purchasing power to our productive machinery, however, is less clearly recognized or understood. Few have yet been able to see that a highly industrialized system based on *laissez-faire* and uncontrolled profits must of necessity produce more goods than the mass of workers can buy back with the wages they earn. On the other hand, the owners, being human, cannot themselves consume any important share of the goods they produce. What they cannot themselves consume, they must convert into cash

or credit in order to pay dividends.

For many years industrial countries have been able to dispose of these accumulated goods in foreign markets. But competition and the industrialization of the less developed nations have caused these markets to shrink. The goods that cannot be sold must therefore be left to accumulate. So long as the accumulated goods do not leave the warehouse shelves at a reasonable profit to the investors of capital, factories must shut down and workers be thrown out of employment. The national purchasing power is thereby further reduced. Thus the worker's normal under-consumption is further aggravated; profits decline, and the depression increases in momentum. Before long we are face to face with what has become our trite and tragic paradox—a social order in which granaries burst with food, warehouses are chock-full of shoes, clothing and goods of every kind, while men, women and children go hungry and ragged and depend on charity for their very existence.

No remedy can bridge this gap between production and consumption unless it is based upon a fundamental readjustment of the distributive process so as to enable the mass of the people to buy more of the goods produced, and thus to prevent large accumulations of goods. As technological improvements make possible constantly larger stocks of goods, the need for increased consumption becomes not only more imperative but requires a constantly more radical adjustment.

In other words, an industrial nation which cannot export much of its surplus goods must see to it that sufficient purchasing power is available to the mass of its people so as to raise consumption practically to a par with production. Such a method is obvious-

ly superior to the plan frequently suggested in this country—and actually followed now—of curtailing production to the level of existing consumption. The first plan makes possible the attainment of the highest standard of life. The second proposes to reduce living standards to a minimum level, with the threat of their constantly going lower. There are two radical ways of achieving a higher standard: (1) Through the raising of wages and price control under a planned economy with profits eliminated; (2) through taxation of excess profits and accumulated idle wealth in order to redistribute the existing purchasing power between those who cannot consume all they could buy and those who cannot buy all that they could consume. The Socialist prefers a planned economy, which controls wages and profits; the intelligent capitalist seeks to stabilize the present system by making the adjustment through taxation.

How has the Roosevelt Administration answered this question? It has been fashionable to charge it with revolutionary intent. Judging, however, by the fundamental steps outlined above as necessary to bridge the gap between production and consumption, there is nothing essentially radical in any of the administration's proposals. Of the Socialist program the administration has so far taken over only a portion—that relating to wages, which, without its corollary of price control, becomes meaningless as an instrumentality of economic adjustment. So far the administration has refused even to touch the radical capitalist program. Instead of using taxation as the chief means of distributing purchasing power, the program is based upon further governmental borrowing—in the long run from those who could

just as easily pay taxes. Instead of narrowing the gap between those who cannot consume their incomes and those who cannot consume because they have no incomes, Washington has widened it.

No sincere student of the administration program can fail to respect and admire it. President Roosevelt and his advisers are obviously motivated by high ideals. Many planks in their program are characterized by unprecedented courage and sincerity. Miss Perkins, Mr. Ickes, Mr. Wallace and a good many other advisers inspire confidence and hope. The administration does not fear experiments and has undertaken each measure with a vigor, unselfishness and zeal never before known in the United States. But an examination of the program as a whole reveals it as distinguished not by radical and revolutionary features but, on the contrary, by a strict clinging to traditional and even worn-out doctrines.

The foremost characteristic of the President's program is its distinct Americanism. Its principles are derived from American liberal dogmas; its mechanisms are peculiarly native. The program is based upon a belief in the fundamental soundness of our industrial civilization, thrown out of gear by a few bad men. No serious operation is contemplated. Short-range planning is deemed sufficient because of the proclivity to see the silver lining to every cloud. At the same time we propose to make each measure effective by exhausting our amazing capacity for organization, pep, ballyhoo, committees and coordinating bodies, and by maintaining faith in confidence as a determinant of all economic forces.

Even in the fifth year of the present economic disaster we continue to look at this depression, as we have in

turn looked at each previous depression, as an emergency. The very emphasis on "recovery," with its pleasant memories of the full fleshpots of yore, illustrates how nebulous is our understanding of the existing problem. The administration seems content to experiment chiefly with homeopathic remedies. The present Congress, we are told, will not even concern itself with anything but "emergency" measures. The longest curative program prescribed by the administration is only for a term of two years. Most of our other remedies are in the nature of three shots a day. The NRA is to last for two years; the blanket code was established for six months; the CWA for four months, the PWA for a Congressional term, while our stabilization and inflation programs last only as long as it takes for one economist to replace another.

The traditional American liberalism and optimism stand out glaringly in the administration's industrial program. Even the NRA, generally considered the most revolutionary proposal, essentially involves no radical departure from old liberal doctrines. General Johnson has repeatedly emphasized that it is intended to reform the bad employers and reward the good ones. It embodies nothing revolutionary, since in essence it is merely a trade between more open governmental regulation of industry and the outworn and thorny Sherman Anti-Trust Law. The established minimum wages involved nothing radical, since they have been common for many years. The shorter work-day has been a public issue for half a century, and the Senate had passed the Black Thirty-Hour-Week Bill before the NRA was enacted. The right to collective bargaining has been an established principle in most industrial nations. Public works have been tried every-

where for generations, while make-believe work schemes have been long recognized as practically universal failures.

It is precisely because the entire program fails to recognize the basic roots underlying the depression, and makes no radical attempt to bridge the gap between production and consumption, that one fails to see how it can effectively cope with the existing evils. An analysis of these instrumentalities reveals their inherent shortcomings.

We have already noted that there is little fundamentally radical in the NRA. But naïve faith and confidence caused us to expect so much of it that General Johnson—to his later regret—promised to put 6,000,000 people to work by Labor Day. These exaggerated hopes were due entirely to our traditional habit of wishful thinking. Had the NRA mechanism been studied carefully and frankly, the inauguration of the program might have elicited less enthusiasm at the beginning, but the administration and the people would have been spared many heartaches and disappointments.

A careful examination would have revealed that the NRA program alone could not possibly reduce unemployment to any considerable extent. The reduction of weekly working hours to forty and thirty-five for industrial workers and to forty for clerical workers—the cornerstone of the program—could not of itself force the employment of any great number of new workers. Such a reduction might have had a considerable effect in 1928 or 1929, when the average hours of work per week amounted to over forty-eight, but not in 1933, when the weekly working hours in manufacturing industries during the first five months of the year averaged 34.7.

The stupendous development of

technological improvements since the beginning of the depression further limits the possibilities of a great absorption of unemployed workers by merely limiting the hours of labor to thirty-five and forty per week. A considerable rise in production has become possible solely as a result of improved machinery. Without a definite assurance of a greatly increased demand for goods there was no real promise, when the NRA was inaugurated, that the mere reduction in hours of labor would necessitate considerably increased industrial forces.

The expectation that a minimum wage ranging from \$11 to \$15 per week would automatically increase the total national purchasing power of the workers was also without real foundation. No doubt certain classes of low-paid workers stood definitely to benefit by these higher rates. But it was easily foreseen that the net result might involve an actual decrease in the total purchasing power distributed by any particular industry or even by industry as a whole. Under the new dispensation many less efficient workers were completely cast out of industry. On the other hand, many of those who were formerly considered cheap and inefficient were discovered to be able to do almost as good work as that formerly done by employees who received more than the minimum wage specified in the codes.

Since the codes did not abolish the employer's right to hire and fire, he was able either to dismiss entirely his more expensive help or to rehire them later at wages more nearly approaching the minimum. The endless possibilities in such reductions were quite unexplored. Even now there is no way of estimating whether or not the meager accruals in purchasing power of the lowest paid wage-earners exceed the reductions in the wages of

higher paid employees. There is no conclusive evidence whatsoever that the NRA program of minimum wages, with its unwieldy mechanisms for enforcement, has actually resulted in increasing labor's total purchasing power. The contrary is more likely to be true.

In conjunction with its minimum wages, the NRA set to work agencies for price-raising, though no effective control of prices was contemplated except by a consumers' board animated by pious hopes. Thus, if prices increase only in proportion to the rise in total wages, the public, despite the stupendous effort and excitement, has not achieved a single additional penny in true purchasing power. No radicalism is involved in this plan.

Even the hope that governmental protection of workers' rights in collective bargaining would encourage workers to form strong unions to prevent the lowering of wages was thoroughly unwarranted. The obstacles inherent in the tradition and history of American trade unionism warranted no real optimism in this respect. Mere governmental sanction cannot of itself create a militant labor movement. Millions of workers in the United States had full freedom of organization before the NRA came into the field, and they shied away from labor unions as from the plague. There was no real foundation for the belief that the great mass of workers in the basic industries where no unions exist would eagerly form such unions.

American workers lack any basic understanding of the meaning of trade unionism. Their prejudices and often their experience with union organizations have made them almost as antagonistic and bitter as their employers toward trade unions. So long as the employer is half-way decent the workers have an abiding faith in him

and will rather take counsel from him than from "outside agitators." The most that can be hoped for is that the more vigorous and energetic unions which already have a foothold in industry will gain strength through the codes. But this does not greatly help the unorganized and low-paid workers. And without strong and spirited trade unions of lower-paid workers there is no possible way of making the labor provisions of the codes truly effective.

It is to the great credit of the administration that from the very beginning it recognized that the NRA and AAA programs could not alone succeed in stemming the depression unless supplemented by governmental grants of purchasing power to the unemployed. It therefore formulated a combined program of straight relief and public works to make this possible. More recently civil works and surplus relief were added. Here too, however, the program involves no radical departure and follows timid, traditional paths rather than new roads.

By financing these projects through interest-bearing loans rather than taxation, the administration strengthens rather than abates the present maladjustment between those who cannot consume more and those who have no purchasing power at all. Moreover, an appropriation of \$500,000,000 for relief was obviously insufficient to make an effective dent in the prevailing misery and poverty. This was especially so since a considerable share of this sum involved no new expenditures, but merely represented a transfer of existing relief expenditures from State and local governments to the Federal Government. The inadequacy of the relief grants, which in 1933 amounted to about \$4 per week per family, prevented, of course,

any considerable increase in purchasing power. Even the granting of about \$300,000,000 in surplus relief, while providing some extra purchasing power to the farmers, added nothing to the purchasing power of the industrial masses, although it is to the credit of the administration that provision was at least made for supplies of better food.

Despite decades of wasteful and uneconomic experimentation with such programs in England, and the recent declaration of Walter Runciman, President of the British Board of Trade, that such expenditures had made "very little impression on the problem of unemployment * * * and had been found in practice to be a failure," the present administration still pins its faith to public works as a solution of the problem of over 10,000,000 unemployed. We continue our allegiance to the traditional belief that "the remedy for unemployment is work." A most casual examination of the problem, however, shows that even a far greater program of public works than what we now contemplate would absorb but a limited number of unemployed, either directly or indirectly.

The carrying out of an extensive public works program under our form of Federal, State, county and municipal government involves so many difficulties that there is little possibility of quick results. The limitations imposed upon governmental functions in the United States—where the principle of no governmental encroachment upon private business is still held sacred—confine public undertakings to the construction of roads, postoffices, schools, warships, harbors and docks, levees, irrigation projects, bridges, hospitals, subways and grade crossings. Any expansion in these projects primarily benefits the workers engaged in the building and con-

struction industries; secondary benefits accrue to the industries supplying materials for building and construction. The benefits extended to all other industries through a spreading out of the purchasing power of the first two groups are of necessity slight.

The planning of public works is burdened with extraordinary difficulties in the United States. These difficulties are those not only of time and place but also of coordination of the various spending agencies. Even in the Federal Government, attempts at coordination have taken years and have as yet far from achieved their purpose. The task is beset with even graver difficulties in the case of States and municipalities, which are the most important elements in a planned public-works program. The thousands of spending agencies in these localities make coordination a problem of appalling proportions. The city of Chicago, for example, contains upward of thirty-one distinct and independent local governments. In Cook County, outside the city of Chicago, there are approximately 380 additional local, independent and semi-governmental agencies, and to bring order into this chaos is a task of many years. The various municipalities must also overcome charter handicaps and limitations on their bonded indebtedness, and frequently must receive legislative approval of every project contemplated. The removal of these legal restrictions is a herculean labor. Moreover, in many cities referendum votes are necessary, and the education of the taxpayers in this respect is not easy.

The best illustration of the inherent difficulties of a public-works program as a remedy for unemployment is offered by the heroic efforts of Secretary Ickes to spend the \$3,300,000,000

allotted by Congress in 1933. Even if it were all spent in one year this sum is small compared to the total public and private construction, which in 1928 was close to \$10,000,000,000, while public construction alone that year exceeded by nearly \$200,000,000 the present emergency appropriation. But allotments on construction projects do not mean immediate increased employment. Many of the projects decided upon cannot be initiated for many months, and a great many others take years for completion. Even with the Congressional appropriation last Spring of \$3,300,000,000, construction work in the Summer of 1933 was lower than in the previous low-record year of 1932.

The Civil Works Administration program must eventually prove little better than our old reliable make-work relief, despite all attempts to avoid it. The many current jests about it may be exaggerated, but they are based upon essential truths inherent in this program. No constructive planning can be possible in four months when the chief purpose is to put money into the hands of workers who are starving. Many of the "projects" undertaken must of necessity be of doubtful value. Moreover, since half the people now being paid by CWA were taken from relief rolls, only half the expenditures, outside the difference between the wages paid by CWA and the relief grants, can be said to represent new purchasing power.

The CWA plan involves nothing radically new. On the contrary, it follows on a larger scale one of our oldest methods of relief. It is based upon the old belief, despite long experience to

the contrary, that it is better to spend from two to three times as much money on unemployed persons for the sake of make-believe work than to grant them relief in a self-respecting manner at only half the price. Indeed, from the point of view of future governmental relief policy, the consequences of this program may prove socially dangerous. The foolish and useless projects which must inevitably be built by CWA may remain as monuments to be pointed to as examples of governmental folly and incompetence. In the end the CWA program may actually set us back for many years in future governmental humanitarianism. So far the administration has not accepted the more radical idea that the "dole" is superior because it is only half as costly and because it leaves no marks. Nor has it as yet accepted the newer idea that unemployed workers are not half as demoralized by self-respecting relief grants as by being made to sweep dried leaves from place to place.

Space does not permit an analysis of the various other programs now undertaken by the administration. There can be no question about the administration's sincere desire to bring about an improvement in our social structure. But there is nothing revolutionary or fundamentally radical in its industrial program; at best it follows the precepts of American liberalism. Because it has not adopted any of the fundamental radical means whereby the basic cause of our social evils—the gap between productive capacity and consumptive inadequacy—will be bridged, no really vital or lasting benefits can be expected.

Another Chance for Cuba

By HUBERT HERRING

[Mr. Herring, who contributed to *CURRENT HISTORY* for October and November, 1933, an account of the downfall of Machado and subsequent events, now describes after another visit to Cuba the recent changes which have led to the setting up of a new government under President Mendieta and its recognition by the United States. Mr. Herring is the director of the Committee on Cultural Relations with Latin America.]

CUBA has turned respectable. After pursuing strange gods for four months, she now comes peacefully back to the fold of the faithful, talks of stability, the payment of debts, the security of foreign capital, of orderly constitutions and peaceful elections. This is the current interpretation of the seating of Carlos Mendieta in the Presidential palace, which was swiftly followed by his recognition by the United States and many other American republics. Whether or not heaven smiles upon the performance, it is certain that there is joy in Broad Street over one nation that repents and promises to pay its debts.

The turn of the new year saw Cuba moving swiftly to the collapse of the Grau San Martín régime. Dr. Grau, in January, presided over a government which, in spite of its failure to win the recognition of Washington, had held a semblance of power and maintained a species of order for four months. His government had been steadily crowded to the Left. The conservative members of the Cabinet had been forced out, and the administration had come to be increasingly dominated by Dr. Antonio Guiteras, the Minister of War and

the Interior. Under the inspiration of Guiteras the Grau régime had embarked upon various ventures of radical hue. The seizure of sugar properties by the workers had been tacitly encouraged, pressure was being applied to the utility interests, and the banks were informed that some \$4,000,000 of interest payments would not be met "because they were illegal loans contracted by Machado's illegal Congress."

These measures were followed by others of still more alarming character. The Cuban Electric Company, having failed to meet the demands of the workers in its plants—demands which were formulated in the Communist-dominated Confederation of Labor—was seized by the Grau government on Jan. 14 and placed under State control. On Jan. 10 Grau signed an edict which sequestered all government lands and all lands which belonged to the officials and satellites of the Machado régime, and set them aside for division among the landless tenants and workers. Under this edict, parcels of thirty-three acres or less were to be assigned to families under the provision that there would be no selling of the land, no clouding of the titles through mortgages or other liens. These farms were to be supervised by the Department of Agriculture and were to be exempt from all taxes for two years. To relieve further the distress of Cubans—and incidentally to irritate further the sensibilities of Spanish and American nationals in the island—it was ordered

that at least half the employes of any concern in Cuba must be Cubans.

By the turn of the year Grau had succeeded in losing a large part of his support. On Jan. 6 the students' directorate, whose members had furnished the backbone of his support, virtually deserted him. He was left with the support of the versatile and inimitable Colonel Batista, lately of the ranks. Even Batista's support became somewhat lukewarm, as the former sergeant found himself embroiled in a feud with Antonio Guiteras. This feud led to the fall of Grau on Jan. 15.

Stripped of student support, with his own forces divided, Dr. Grau faced a serious massing of hostility. Arrayed against him were all the more conservative groups—the Menocalistas, the Marianistas, and the Nacionalistas; the leaders of the ABC; many of the students. But these were not the only groups to confuse the picture and to harry his course. Labor, dominated by Communist leaders, was in an uproar. Tobacco workers, dock workers, electric workers and sugar operatives—all cheerfully joined in to complicate an already impossible situation. The radicals followed their immemorial course by blocking the one man who honestly hoped to aid them.

The efforts to bring about some compromise between the various sectors broke down. The Uruguayan Minister had been active in attempting such a harmonization, but failed, and in failing flayed Sumner Welles, the American Ambassador, in no uncertain language. The efforts to arrive at a conciliatory compromise were rendered more difficult because of the widely held conviction that the leaders of the ABC were plotting with Menocal and were inviting the aid and cooperation of American financial interests. Grau's chief supporters

were divided on the issue of compromise. Batista, who proved himself a shrewd realist, favored compromise as the only way of obtaining a government which would be given the support of Washington. Guiteras, unyielding in his radicalism, preferred that Cuba should work out its own destiny in more radical fashion. This sharp division between the two men made the fall of Grau inevitable.

The break came on Jan. 15. The revolutionary Junta which in September had unceremoniously dismissed Carlos Manuel de Cespedes now met to dismiss Ramon Grau San Martin. This time it was Fulgencio Batista, sergeant become colonel, who proved to be king-breaker and king-maker.

The fall of Grau San Martin is to be explained on various grounds. He had little backing. He was able neither to restrain labor nor to satisfy it. He was deserted by those of the Left as well as by those of the Right. Nevertheless, he held office for four months. This stands out as a remarkable achievement in the light of the varied forces which were allied against him. His success is to be explained only on the ground that Grau himself and the program he expounded responded in genuine fashion to the desires of the Cuban people. Grau had certain intangible assets in his favor. His was a Cuban movement; it sprang from the island itself; it was neither made nor blessed by the United States. Many who would normally have turned upon him were restrained by this fact.

"I fell because Washington willed it," was the explanation which Dr. Grau gave me on the evening of Jan. 17 when I called upon him in his home in the Vedado. This is the interpretation which is put upon the events of January by men of all parties in Havana today.

What share the United States, through its representatives, Mr. Welles and his successor as Ambassador, Jeffery Caffery, had in unseating Dr. Grau is a story, partly known, partly unknown. Some of it is open for all to read, some of it is locked away in the minds of Mr. Welles, Mr. Caffery and others who share the secrets of the State Department.

The hidden record cannot be opened here. Did Mr. Caffery persuade Colonel Batista that the best interests of Cuba demanded the removal of Dr. Grau San Martin? Did Mr. Caffery persuade Colonel Batista that the only hope for recognition by Washington lay in substituting a man more acceptable to American leaders? Did Colonel Batista conclude from his conversations with Dr. Caffery that the only hope for an orderly government in Cuba, a government which would continue to pay the Colonel his salary and give him a valued place of power, would lie in following the lines suggested by Mr. Caffery? These are questions. I put them without prejudice. The Cubans, of all varieties, answer with an emphatic "yes." In other words, they are saying that the American Government, professing to forswear the time-honored ways of diplomatic intervention, has intervened again. They are saying that Mendieta was chosen President of Cuba in the American Embassy. They may be right or wrong. I do not know.

The open record is unmistakable. The United States did not recognize Grau San Martin. His government was in power from Sept. 5 to Jan. 15. With the exception of stringing gunboats around the coast of Cuba, the United States did nothing to provoke disorder, nothing to encourage revolts. American diplomacy during this period was scrupulously correct. The fact remains, however, that the

United States helped to unseat Grau by withholding what in the long run is an absolute essential to the stability of a Cuban government—the recognition of the American Government. To a limited point, the failure to recognize aided Grau. It persuaded the Cubans that Grau was not there by permission of the United States. Beyond that point, non-recognition became an increasing threat to his stability. Non-recognition meant the withholding of credit, and without credit the sugar crop would not be harvested. It meant the postponement of negotiations for the fixing of a sugar quota, for the arrangement of more favorable tariff terms. Without these Cuban economic life was doomed.

The failure to recognize Grau remains a scar on the rapidly improving relations of the United States with Cuba. It places a distinct handicap upon President Mendieta. It increases the Cuban conviction that Mendieta has been put in to protect American interests. This may not be the fair judgment, but it is widely held in Cuba today.

Grau was deposed on Jan. 15. The choice of his successor proved to be a more complicated matter. The feud between Batista and Guiteras was the chief element of discord. Batista was committed to Mendieta; Guiteras hated Mendieta and had no enthusiasm for any one who could be accepted by Batista. A compromise was made on Carlos Hevia, and he was summarily appointed Provisional President and took office on Jan. 16. Hevia is the 34-year-old son of Aurelio Hevia; he is a graduate of Annapolis, a competent engineer, a bitter enemy of Machado, one who served his term in prison and in exile, and was Secretary of Agriculture under Grau. He was inaugurated President without any evidence of popular en-

thusiasm. The Presidential salute of twenty-one guns was unexplainably cut to nine guns—presumably on Batista's order. His two-day term in office was marked by denunciations by mobs and attacks by many leaders in all sectors. He had been promised the support of Mendieta, but Mendieta's own party disowned the act. Batista, who had persuaded Hevia to accept, turned upon him. It seems clear that Batista used Hevia for his own purposes in winning the victory over Guiterras. With Grau dismissed, with Hevia powerless, Batista proceeded to move toward the appointment of Mendieta. The simple sergeant proved himself to be something of a politician after all.

Carlos Mendieta took office at noon on Jan. 18. The enthusiasm of the crowd which surrounded the palace was the first spontaneous and wholehearted thing which had happened in Cuba since that memorable Aug. 12 when Machado left the country. Discount as you will the enthusiasm of crowds, the fact remains that Mendieta comes nearer to being a popular hero than any man in Cuba today. Sixty years old, veteran of the war for independence, his record is honest if not brilliant. Even Machado added his testimony to this effect: "Mendieta is the most honest man in the Opposition." He did not wish the office at this time. He wanted to wait and stand for election when and if a regular election is held.

The new President takes office with a substantial body of support. He has been recognized by the American Government. He has the ABC behind him and Miguel Mariano Gomez's substantial party (Gomez has been returned to his former post as Mayor of Havana). He has the support of the business community, Cuban and American. Arrayed against him are the

Communists, the Left-Wing students and the younger radical intellectuals generally. It is not a large group, but it is active and determined.

Mendieta faced immediate tangles. There was the tie-up of the hospital and medical service. In January 25,000 physicians went on strike in opposition to Grau's efforts to organize a government-controlled union of physicians. The strike was also directed at the great Spanish regional mutual benefit societies (a type of organization which has grown to great estate in Havana, the largest having a paid membership of over 50,000) in the effort to force them to exclude from their free medical service any member earning more than \$100 a month. This strike, which had brought incredible hardship to the people, was finally ended with a thirty-day truce.

There was the widespread hunger throughout the island. Mendieta has obtained a \$10,000,000 food credit from the United States. Substantial shipments have already been made, and arrangements are being made to distribute the food for the relief of the island's needy.

There was the conflict with the utility owners. Grau had taken over the Cuban Electric Company. Mendieta has already returned control of the plants to the company. This has enraged many of his friends and unless he follows this move by demanding a scientific revision of the company's rates, his attitude will be construed as playing the game of American business interests. There seems no doubt that electric rates are excessive.

There are strikes. Labor in Cuba, long repressed, is led by Communists. They view the present hour as their golden opportunity to claim and gain concessions. They steadfastly refuse to take account of the bankrupt condition of the island's industry and will

probably refuse to cooperate upon any workable plan for economic rehabilitation.

Mendieta faces these tangled problems as he takes up his office. Those who know him best speak affectionately of him and bear testimony to his honesty. They also say that his great weakness is his own lack of assurance. He is surrounded by a group of political satellites who are abler but less honest and less pure in their patriotism. Much depends upon their influence. His Cabinet is on the whole an excellent one, conservative in emphasis, but able and honest.

Cuba has made a swing to the Right. There will not be much social experimentation under Carlos Mendieta, nor need American investors shiver at the bogey of confiscation. They may not get their interest and dividends, but that will not be Mendieta's fault. This swing to the Right will alienate many of the best that Cuba has. The youth of Cuba, to which we have looked anxiously and with hope, view the present developments as a betrayal of their revolution. They can be counted upon to be violent in their denunciation and in their attempts to obstruct and to overthrow Mendieta. They will inevitably lay the blame for all that happens upon the United States.

In spite of all these handicaps, Carlos Mendieta has a chance to lead Cuba through a period of reconstruction and preparation. He plans to work toward the calling of a Constituent Assembly, the adoption of a Constitution and the election of a President. This will require not less than a year. If, in the meantime, he can work out some of the more pressing economic questions, and can conclude

fresh agreements with the United States, and can assure free and fair elections, he will have served his turn.

There are five steps ahead which concern the relations of the United States with Cuba:

First, an agreement must be reached whereby Cuban sugar is given a definite and increased quota within the American plan. A minimum quota of 2,000,000 tons is asked for.

Second, a strong appeal will be made for a further preferential on the United States sugar tariff for Cuban sugar.

Third, an effort will be made to secure radical revision of the interest rate on the Cuban national debt.

Fourth, a new land policy is necessary to aid Cuba in moving toward a greater measure of economic sufficiency. The Grau régime launched one experimental measure; others are needed to get more Cubans working the soil for the production of their own foodstuffs. The cooperation of the United States may be needed at this point.

Fifth, the permanent treaty between the United States and Cuba calls for revision. President Roosevelt has already expressed the eagerness of the United States to move in this direction. The administration in Washington is as anxious to rid the United States of the Platt Amendment as is Cuba to be set free. The events of the six months since the fall of Machado have served to emphasize the futility of the present relationship. The time has gone forever when we can have neighbors who are half slave and half free. That has been the status of Cuba for thirty-five years and it has produced nothing but disaster.

Recovery Through Taxation

By HAROLD M. GROVES

[Mr. Groves, who is Professor of Finance in the University of Wisconsin, was recently appointed tax expert to the United States Treasury, but the appointment was immediately canceled by Secretary Morgenthau.]

THERE are many people who reserve their patriotism for times of war, an unfortunate fact because there are so many occasions in times of peace which call for loyalty of the first order. One is payment of direct taxes, especially such direct taxes as the people of the United States should pay during the next decade if governments are to meet the responsibilities they have inherited from the war and the depression, check inflation and maintain a proper balance in the economic system.

The modern economic system is efficient in many respects, but terrific maladjustments and human insecurity are the price paid for its efficiency. Formerly—in theory at least—the hardships of the system were allowed to fall where they might, on the assumption that individuals would thus be induced to readjust themselves to new conditions. The majority of us are now too humanitarian to follow the old rule. Some sense of social solidarity is replacing part of the old individualism. Men now insist that the victims of the economic system either be aided temporarily while adjustments are being made, or be given permanent relief if no adjustment is possible. The new philosophy does not accord with theories of free competition, but it is difficult to see how the economic system could retain enough emotional support to avoid an explosion were it not

to continue in its present direction.

The most important group of victims of the economic system are the unemployed. They are a varied group. Some are without work simply because of the slump in industrial activity; they can be taken back if and when business recovers. Others are unemployables, unfitted by the war or the depression or other causes to resume a place in industry. Many are unemployable because they are past 40, and industry does not want gray-haired men. Still others are unemployable only in the sense that their skill is no longer required in industry—it has been displaced by new machinery and new techniques of manufacture. But these unemployed and unemployables have become a problem of government.

Today we are providing jobs for large numbers of men at government expense in order to increase the demand for labor. This is enormously expensive. Many are asking the question, How long can it be continued? Others are asking, Can it be discontinued? Is it going to be possible to put millions of men back on the relief rolls after they have become accustomed to government pay checks? Possibly once the pump is primed, the unemployed can be reabsorbed into the labor force of private business, but whether or not this hope be realized, a large crop of unemployables will remain on the government's doorstep. Some of these will require rehabilitation and can be employed thereafter; others must remain a permanent charge upon government.

Even the most optimistic observers admit that the unemployed are certain to be a much greater problem in the future than they have been in the past and to require a much larger expenditure of public money.

Another victim of present maladjustments is the farmer. It now appears that we have far too many farmers and far too much farm produce to sell at prices which will yield farmers an adequate profit. This maladjustment resulted from a rising economic nationalism which has closed many of our foreign markets, from technological improvements in agriculture itself and from improved refrigeration of foodstuffs. Logically, the maladjustment might be cured if farmers would quit farming and abandon farms. But the farming population is not mobile enough to make this adjustment easily, even if there were any inviting field into which it might move. Probably the adjustment cannot be made at all without governmental assistance.

The farmers include a very large section of the population. Many of them have known a relatively high standard of living and bitterly resent the hardships which they have been compelled to endure. Both for political and for more justifiable humanitarian reasons it is going to be necessary to lend agriculture the supporting hand of the government for many years to come. Some of this assistance can be financed by taxes imposed upon farm products, but some of it will have to come from the public treasury as a subsidy. Undoubtedly this will constitute an important item in future Federal budgets.

During this depression governments, especially State and local governments, have made wholesale sacrifices in the standards of public service, particularly in the field of education.

A few facts may be cited from a recent announcement by the Commissioner of Education. Nearly 2,000 rural schools in twenty-four States failed to open in the Fall of 1933. One out of every four cities has shortened its school term; 715 rural schools are expected to run less than three months. One out of every four teachers in the United States is now teaching on a salary of less than \$750 a year, only slightly above what the blanket code allows an unskilled factory laborer. Pupil-teacher ratios have increased almost universally. Thus education has apparently been skimped far beyond the point which a nation with the resources and traditions of America should endure. Eventually a national minimum of educational opportunity will have to be established. Moreover, unemployment, the reduced hours of labor, and the complicated problems of our modern democracy all justify a substantial expansion of the educational program. Adequate provision for education in the future will require a large outlay of money.

There are, of course, many possibilities for genuine economy in public expenditures. Local government, particularly, is poorly organized and improperly manned. An improvement and extension of the merit system in civil service is long overdue. One of the most unfortunate features of the drastic curtailments of this depression is that they have been so unselective. Improving the quality of government is a task that is never completed and one that calls for greater effort now than ever before, but the program of expanding public expenditures outlined above cannot wait for perfection in government. And the savings which can be made will be small compared with the new outlays needed.

More and more often these days the question is heard, Where is the money

coming from? If governments are to assume their full responsibilities and meet the pressing claims for support mentioned above, where can they find the revenue to pay for the program? It may be said that the money can be borrowed, and that is how in the main the Federal Government is financing its present program. Borrowing money, however, has its limitations, for it increases the fixed charges of government in the form of mounting interest bills. Moreover, government bonds have to be paid some time and by somebody. And if borrowing is carried too far, it defeats itself by weakening the credit of governments. An unbalanced budget may be accepted for a time as a desirable way to meet an emergency situation, but there is a limit to the period during which this luxury can be extended.

Another method which is now proposed for meeting governmental bills is inflation. A little inflation, like a little borrowing, will not bring down the national structure in a heap of ruins. A certain amount of inflation was used to finance the war, and this inflation was one of the causes of America's war prosperity. But the popular feeling that inflation is dangerous is not founded on an illusion. Inflation is dangerous because if it is carried too far it causes people to lose confidence in their currency and credit. The natural result of this fear is more inflation, and then a vicious circle is started. Where this circle leads has been witnessed in European countries.

The methods of finance described above cannot be accepted as more than temporary expedients at best. The alternative to them and the sound way to pay for governmental obligations in the long run is taxation. If the program of governmental expenditures that the times require is to be

carried and undue inflation along with a collapse of governmental credit avoided, we must expect to pay taxes and pay on a scale which America has hitherto not known, at least in time of peace. It is true that even without changes in the tax system, a revival, even a partial revival, of prosperity will greatly augment the public revenues, but considering all the new obligations of government and the mounting burden of interest, it seems fairly clear that the existing tax system will not be equal to the task.

It may be asked, first of all, whether it will be the Federal Government or the States that will be called upon to enlarge their tax revenues. The answer is that most of this load will and should be borne by the Federal Government. The Federal Government has already assumed much of the burden of caring for the unemployed and rehabilitating agriculture. Before many years it will be called upon to assume a substantial part of the cost of education, for education is a national concern. People on the Atlantic seaboard cannot accept with complacency a breakdown of the educational system of Arkansas. Eventually the nation's entire ability to pay must be placed behind its schools and a minimum standard of educational opportunity for all must be assured.

Should the taxes to finance our expanding governmental expenditures be direct or indirect? So far as possible taxes should be direct. The boundary line between direct and indirect taxes is not very distinct, but, in the main, taxes are regarded as direct when they are so placed that individuals who pay them will bear their ultimate burden. Taxes are indirect when they are imposed upon a group in the expectation that this group will pass them on to others. Income and inheri-

tance taxes are direct; sales and excise taxes are indirect.

Why are direct taxes preferable? It now seems fairly clear that one of the maladjustments which was both a cause and an effect of the depression was and is the overdevelopment of capital and saving compared with purchasing power. Take the capital side of this equation first. From 1922 to 1929 more than \$8,000,000,000 was invested abroad, an important outlet for surplus capital. But what good did these foreign investments do us? Many of them were imprudent, and had to be written off as such. But even if all of them had been carefully and wisely selected, what assurance was there that the American people would ever receive, as a result of these investments, goods which would make possible a higher standard of living? The nation's tariff policy had made it very clear that goods from abroad were not wanted, and that the home market was regarded as none too large for our own producers. In spite of heavy investments abroad our capital supply was ample to overbuild American industry in almost every line.

The other half of this picture is the shortage of purchasing power. It has become apparent that America's high-gear, much-mechanized industrial plant can no longer be used to capacity unless markets are strengthened. The present NRA program is an attempt to create the wide distribution of purchasing power upon which a better market must be based. The program attempts to do this by promoting higher wages and shorter working hours, but it will be defeated if the price of consumers' goods is raised in proportion to the increase in industrial payrolls. There is, however, a method of distributing purchasing power which does not involve this hazard. That method is direct taxation, based

upon ability to pay, to support a program of desirable governmental expenditures.

There is another approach to the problem of suitable taxes to pay for the recovery program. As we said before, the price of our economic progress under the capitalistic system has been maladjustment and human suffering. Millions of farmers and laborers are now paying and will have to pay heavily in privation and humiliation, notwithstanding the most generous relief program possible. It must be remembered that some 20,000,000 people have been on relief during this depression, and many more have narrowly escaped. The heaviest taxes based on ability to pay and levied upon the beneficiaries of the economic system would be entirely incommensurate with the toll which the system has taken from its victims.

It will be said that the rich as well as the poor have lost much during this depression. And that is true. Consider, however, the figures which give some indication of the relative sacrifices. Figures recently given out by the United States Department of Commerce indicate that wages fell off 60 per cent from 1929 to 1932. Interest and dividend payments fell off 30.5 per cent during this period. Department of Agriculture figures show a falling off of gross farm income during this same period of 56.9 per cent. Thus it appears that while all classes have lost heavily during the depression, its greatest wreckage has been suffered by the farmers and wage-earners. And of course figures do not tell the full story. Farm income and wages are distributed to millions of people who had small if any reserves to cushion the blow of the depression.

And then there is the matter of unearned income. No unprejudiced person could live through this depression

without being impressed by the obsolescence of the old doctrine that people get rich by serving the commonwealth. The national income, particularly that in the higher brackets, is heavily weighted with unearned gains. Probably this unearned income cannot be singled out for special taxation, but its existence warrants heavier taxes upon income in general.

The conclusion must be that both justice and expediency require an increased reliance upon direct taxes, based on ability to pay, to meet the new and enlarged demands upon governments. What can be done to the tax system to increase the revenues from direct taxes?

First of all, the income-tax law needs to be mended and will be to some extent if the pending revenue bill is passed by Congress. Many of the holes in the law are not new, but the Senate committee's investigation of Wall Street has awakened the country to the fact that they exist. For example, take the unrestricted deductibility of capital losses. One of the Senate committee's witnesses described how he had "sold" a big block of shares to his daughter to "realize" a heavy loss. These shares stood in the daughter's name for sixty days and then were transferred back to the witness at the same price at which he had "sold" them. Not a cent changed hands, and the daughter did not even know about the transaction. This "loss" was sufficient to offset all the other income which this very wealthy taxpayer received during the year, with the result that he paid no income taxes at all to a government which was making a desperate effort to balance its budget.

Not all capital losses are as unreal as the one just described. But in general it is true that capital gains and losses represent a distinct kind of in-

come. They result from the occasional sale of securities and real estate, and not from a regular flow of income such as arises from the sale of merchants' or manufacturers' inventories. The difference is recognized in the accounts of the taxpayers. It is recognized also by the income-tax laws of foreign countries, several of which ignore capital gains and losses entirely.

Capital gains, however, represent ability to pay of the first order and should not be ignored in the tax system. Such gains are usually fortuitous and unearned in character; or they represent the reinvested earnings of corporations, earnings upon which the stockholder has escaped taxes entirely up to the time of the realized capital gain. The best solution of this problem is to limit capital-loss deductions to capital gains and to provide that in no case may a capital loss be offset against current income, such as wages or interest or rent.

An ever-widening gap in the Federal income tax springs from the exemption of government interest and salaries. Total governmental obligations, interest from which is exempt from the Federal or State income taxes, or both, now run to some \$42,000,000,000. When it is recalled that the latest estimates of the national wealth range from \$150,000,000,000 to \$250,000,000,000, it can be seen that exemptions cover a substantial portion of what there is to tax. The salaries of all State, county and municipal employes (including public-school teachers) are exempt from the Federal law, and Federal salaries are exempt from all State income taxes. Most of these overgenerous exemptions are founded upon doctrines in neither the Constitution nor the statutes, but laid down years ago in decisions of the United States Supreme Court. This child of

the court has outlived its usefulness, even if it be conceded that it originally had a sound reason for existence.

The income tax is frequently avoided by the creation of personal holding companies, which receive dividends that would otherwise go to individuals and be taxed under the surtax. Dividends received by the holding company are reinvested for the individual, and escape the surtax. The main purpose of the personal holding company is to avoid taxes; it has no important economic function and should be prohibited or taxed out of existence.

Many taxpayers give away or otherwise dispose of their wealth to members of their families. Usually this can be accomplished without loss of benefit from or control over the taxpayer's property. It results in several lesser incomes instead of a single greater one, and thus avoids the higher rates of a graduated tax. This leak in the tax laws cannot be entirely avoided, but it could be very much reduced by making the income of the family (husband, wife and minor children) a single unit for purposes of taxation.

Space will not permit a further discussion of these and other holes in the tax dam through which large streams of potential revenue are escaping. The revenue bill now pending before Congress is a sincere attempt to block many of the holes. But it ignores tax-exempt securities and salaries. And it is open to criticism because of the partial exemption of capital gains which it provides. There may have been a time when we could afford the luxury of a leaky revenue system, but that time has passed. Moreover, the taxpayer who contributes heavily from a reduced income to support the government in time of need should have the assurance that all others who have his ability to pay are contributing on the same scale.

Many feel that Americans are taxed to the limit, and that direct taxes even now border upon confiscation. A comparison of the relative levies here and abroad throws some light on this matter. Such a comparison follows:

Comparison of Income Tax.

(Married person, no dependents, all income from salary.)

Net Income.	Per cent tax to net income—			
	U. S.	Great Britain.	France.	Germany.
\$1,000	0	0.88	3.378	7.90
2,000	0	5.57	8.505	15.84
3,000	0.066	10.38	12.195	18.11
5,000	2.0	14.22	17.146	21.59
7,500	3.4	16.29	22.017	26.02
10,000	4.8	18.62	25.249	29.89
15,000	6.8	22.95	31.255	34.46
25,000	10.08	29.47	38.039	39.78
50,000	17.20	39.30	47.432	45.13
100,000	30.1	48.10	53.651	47.44
500,000	52.72	61.58	53.930	49.49
1,000,000	57.11	63.91	53.965	49.74

Conversion Units—Great Britain, £1= \$4.86; France, 1 franc=3.92 cents; Germany, 1 mark=23.82 cents.

Comparison of Death Taxes in the United States and Great Britain—Entire Estate to Widow.

(Conversion unit: £1=\$4.86.)

Net Estate Before Exemption.	Per Cent of Tax to Net Estate—	
	United States.	Great Britain.
\$1,000	0	1
5,000	0	3
10,000	0	3
15,000	0	3
25,000	0	4
50,000	0	5
100,000	1.5	9
150,000	3.33	12
200,000	4.75	14
300,000	6.50	17
400,000	7.62	19
500,000	8.50	21
600,000	9.25	23
800,000	10.56	25
1,000,000	11.75	27
2,000,000	15.77	33
3,000,000	18.45	37
5,000,000	22.99	41
10,000,000	30.94	51

Source—Double Taxation, Preliminary Report of a Subcommittee of the Committee on Ways and Means Relative to Federal and State Taxation and Duplication Therein (1933), p. 237.

It will be observed that it is not until the \$100,000 level is reached that the income tax imposed in the United States is half as great as that in Great Britain, and not until the \$3,000,000 level is reached that the estates tax is half as great. The comparison would

be even more favorable to the American taxpayer if the present depreciation of the dollar were taken into account. Although, unlike Europeans, American taxpayers frequently have State income and inheritance taxes, State inheritance taxes are allowed as a credit against the Federal estates tax, and State income taxes are deductible as an expense in computing the Federal income tax.

Disregarding any question of possible increases in direct taxation, we are likely to be confronted with insistent demands for decreases before many months have passed. Already, with the first signs of business prosperity, demands for a reduction in income and estates taxes are being heard. Pleasant as it would be to give everybody what he wants, it would be unwise, if not disastrous, to follow again the line of least resistance which characterized the Nineteen Twenties. It will be remembered that the income-tax schedule was reduced once every two or three years during the decade before the depression. This was open to much justifiable criticism during the Twenties; it will be indefensible during the Thirties.

When it comes to taxpaying pa-

triotism the British have set an example for Americans to emulate. Stanley Baldwin, former Conservative Prime Minister and Chancellor of the Exchequer, in addition to the very large sums in taxes which he has paid for many years, is reported to have presented the British Treasury recently with a substantial donation. Some years ago Lady Houston inherited \$30,000,000 which, because of some feature of the British law and the nature of the investments, was exempt from the inheritance tax. Nevertheless, on her own initiative she turned over a third of her estate to the British Treasury. It is said that an Englishman suspected of fraudulent attempts to evade the taxes he owes the British Government finds himself avoided by his social group. One has to strain one's imagination to picture incidents and attitudes of this sort in the United States. The British believe in government, and they are devoted to their country; they do not wait for a war to express their loyalty. It remains to be seen whether or not Americans can develop a taxpaying patriotism of the British brand. More may be at stake in this endeavor than the average citizen yet realizes.

Junker versus Nazi

By HARRISON BROWN

[The writer of this article is an English journalist who has long been acquainted at first hand with conditions in Germany. He was again in that country during the first few months of the National Socialist government until his bold criticism of the new régime made it dangerous for him to remain there.]

THE thesis of the National Socialists and the standpoint of their foreign apologists is that Germany has had her revolution and now wants to live at peace with the world. In both respects the claim is controversial and in both the necessity for drastic qualification at least can be proved. It is as untrue to say that Germany has yet had her revolution as it is to say that Hitler "seized power." The Nazis were hauled into office by the Junkers and the industrialists after they had passed the zenith of their influence and had begun to disintegrate.

Hitler has not destroyed the old régime; he has supplanted a weak interregnum of Social-Democracy which had already collapsed in July, 1932, with the surrender of Severing, just as the old régime itself had collapsed in 1918 with the surrender of Ludendorff. The impetus created by the rank and file of the Nazis in the wake of Goering's terroristic activities carried Hitler considerably further than his own timorous leadership would have done. It enabled the party to turn the tables on their Nationalist allies; it has enabled spokesmen all down the line to proclaim the glory of the *Führer Prinzip* (leader principle); by the sensational destruction of what are considered elsewhere the cultural

bases of civilization it has created the impression that Germany has been wholly *gleichgeschaltet* (coordinated) to the Nazi pattern.

For the moment at least most of that is bluff. The power factors of the old régime have been eliminated from the surface only; it is they who still run the country, and not even the best of them, for it was part of the bargain that the decent element among the Nationalists, represented by such men as Oberföhrer and Dösterberg, should really be got rid of. Not otherwise could the Nazis have had free rein to cause such devastation and to wreck the highly efficient civil service for the benefit of incompetent party job-seekers. At headquarters the *Führer Prinzip* does not work, for there are many *Führers*, most of them at cross-purposes.

But if the functioning of the leader principle is a myth, the incessant proclamation of it is important for several reasons. By the fanaticism of his single-track mind and his flair for popular sentiment, Hitler has retained the leadership of his movement against many obstacles. Apart from that, he is a vacuum. The *Führer Prinzip* is doing for him now what his audiences have done for him in the past. Alone, or in committee, he has always been a nonentity, subject to fits of melancholia; faced with a crowd he has a capacity for imbibing their magnetism and throwing it back to them in concentrated form. Suggestion may yet make him a leader, in the sense of statesmanship,

by means of this same capacity for serving as a channel. But the fact that he is still far from maturity is of great importance. On the manner of his development may hang the future of Germany and of the Western world.

At present, in any case, Hitler is the sport of intrigue and the marionette of circumstances as much as any puppet king that ever was. To a simple mind the complexities of modern government are unutterably confusing, and in these days especially Dr. Hanfstaengl is often called upon to play the piano to cheer his depressed chief.

This period is indeed portentous, for even outwardly the theory of the complete supremacy of the Totalitarian State is being assailed. The joint denunciation of the paganism of the Nazi "German Christians" by the Evangelicals and Catholics strikes more deeply than any mere struggle for liberty of conscience, upon which alone a powerful withdrawal before such numbers would be easily possible. It strikes at the dearest phobia of Hitler himself—anti-semitism. For propaganda purposes his coming to power destroyed such bogies as unemployment, corruption, the Junkers, &c., and attention has therefore been largely concentrated upon "racial purity." The Jew has been more than ever the wire through which all criticisms of brutality and delay have been short-circuited. How can there be a volte-face on such a question? How stem the flood of anti-semitism which is the base of all new laws and all new education? For the Nazis the church crisis is the most important event since their arrival in power, for it is one in which compromise is as inevitable as it is dangerous.

Foreign policy, too, is proving less simple than it seemed. In *Mein Kampf*

Hitler has written: "Let this be perfectly clear. The inexorable deadly enemy of the German people is and will remain France." Arrived in power, there were demonstrations around the frontiers, "strong-hand" talk by Nazi leaders, finally strong action at Geneva. Then a sudden change, a proffering of hands across the Rhine, much talk of "gestures." Hitler had acquired the ambition to be the man who solved the Franco-German quarrel. Hitler is always sincere; that the French realize. They did not doubt the momentary sincerity of his interview with Fernand de Brinon, published in *Le Matin* on Nov. 22; they only feared that later there might come another somersault. Their suspicious minds thought, too, that some of the Nazis might be as militaristic as they said they were; they even imagined that the frantic preparations for war were not entirely a matter of prestige and of that "inferiority complex" which Hitler claimed to have destroyed. They noted the unprecedented importations of such an all-important war material as nickel, the purchases of scrap iron and the prohibition to export it; they watched the efforts of the government to make the German people "air-minded," and the drilling of the whole male population over the age of 10.

Nevertheless, the French presented a new offer on disarmament. It is no secret that Hitler was at first delighted with this document. "You give me more than I asked," he is reported to have exclaimed to the French Ambassador. The French offer was certainly an advance; had it come five years earlier most subsequent history would have been different. It looked for security to the reduction of French armaments, but it also required no rearmament for Germany. It was worded with extreme politeness. And

yet it took the Germans many weeks to answer. The old officials found several snags in it; the heavy industry, which largely controls the Nazi Economic Council through its members Thyssen, Voegler, Boehringer and Krupp von Bohlen, also did not approve of being balked of further orders.

Hitler's disillusionment cannot have been less painful on account of his first innocent burst of enthusiasm. So this was the tricky foreigner he had heard about! Soon a revulsion of feeling became evident in his speeches. There crept in a note of bluster which certainly did nothing to convince outside opinion that Nazi conversion to peace is either profound or permanent. "The consideration of other nations is better than their friendship," he said, as the German reply was being drafted, and the notorious Roehm talked about giving a German face to the world.

In addition to all this there is the economic situation. The Ministry of Finance may pretend to optimism, but the leaders have no illusions about the state of affairs. Nazi statistics on unemployment are obviously open to question; the "dole" figures are no guide at all, for not even all the registered unemployed receive the dole—notably domestic servants, agricultural laborers and bargees. *The Economist* (London) has pointed out that "fresh employment was only found at the expense of those already occupied, by cutting down their hours of work and reducing their wages accordingly." Real wages are lower today in Germany than they have been for fifty years. At the beginning of 1933 the total number of unemployed was estimated at about 8,000,000. A Nazi paper, the *National-Sozialistischer Volksdienst*, of Jan. 12, 1934, says that today 7,000,000 people are

being assisted by the Winter Help—to the extent of an average 7 marks monthly in money or kind. When the dependents of the assisted people are included, this means that at least a quarter of the total population of Germany is receiving help to the extent of a very small monthly amount.

These figures and these dissatisfactions of large groups do not proclaim that National Socialism has failed. They do, however, indicate that it has as yet done nothing to improve the material well-being of the people. And that alone is sufficient to indicate further changes in store. That the changes will come by means of pressure from the "have-nots" of the movement upon the forces now in occult control is fairly certain.

The alliance of Junkers and industrialists with Brown fascism came into being under various forms of pressure and with different specific objectives. The industrialists sought a popular mask under which they could destroy organized labor. Hitler was faced with the disintegration of his movement and clutched at the last chance to save it. By so doing he proved the correctness of Gregor Strasser's analysis of the situation a few weeks earlier, when that leader had sought to persuade Hitler to throw in his lot with von Schleicher. Strasser was disgraced and for a period was a refugee in flight. He has now for some time been back in Germany and, as a chemist, holds the important post of manager of the Schering-Kahlbaum factory in Berlin, one of the chief potential poison-gas factories in the country. Strasser has always represented the extreme revolutionary Socialist wing of the Nazis, not far removed from communism. It is not unlikely that his influence and advice are already felt inside the jarring factions of the Berlin leadership.

The position of the third party to the alliance was the most interesting and may still prove to have been the most important. Since the war the Prussian Junkers had regained their political influence, but their economic situation had gone from bad to worse. They had survived the collapse of their world in 1918 by the simple expedient of retiring to their estates and keeping quiet. Outposts of the old régime in the civil service watched every opportunity of reasserting the claims of the traditional ruling class. Above all, the old professors throughout the educational system never ceased to stab the Republican government in the back.

Once only in the succeeding years was there an interruption in the slow return to power of the Junker. At the time of the Kapp Putsch there were peasant risings throughout Mecklenburg, Pomerania and East Prussia. A few landowners were killed; often the scenes resembled those of the French Revolution, with aristocrats facing an angry mass of agricultural workers armed with pitchforks and old guns. But the latter were quickly outwitted, and the revolt subsided.

Until a year ago, in outlying spots, it was still possible to see the peasant kiss the hand of his overlord. Feudalism was only just out of sight in East Prussia, nor was the general level of culture of the Junkers themselves far removed from that period. Heine denounced the Prussian aristocracy as "a handful of common nobles who have learned nothing beyond horse-trading, card-sharping, drinking feats and similar stupid, rascally accomplishments. Such are the men who think they can fool an entire race, and, moreover, the race which invented gunpowder and printing and *The Critique of Pure Reason*."

Nevertheless, the doom prophesied by Heine has been a long time coming. For nearly a hundred years after he published his diatribe the Junkers have continued "to fool an entire race." Not even their own tenants saw through them. In 1932 the decline in prices of meat and dairy produce had become catastrophic for the peasant farmer. Yet the latter never saw that a chief cause of his ruin was the prohibitive grain duties imposed for the benefit of the Junker. Despite the reformers of 1848, despite Free Trade, Caprivi, Bismarck, the war and the "Revolution" of 1918, this tiny minority of a few thousand families, in an ocean of 65,000,000 souls, has disappeared into the trough of one wave only to reappear on the crest of the next.

By 1924 they were a power in the Reichstag, advocating, among other things, an anti-semitic program. In the Luther Cabinet of 1925 they held four seats. Finally, when Bruening resorted to the idea of "Presidential government," they began to come into their own. With parliamentary control out of the way, intrigue inevitably played a greater part than ever in public life, and just as inevitably did the intrigues centre round the aged President whose edict had become law. If von Schleicher was the political assassin who actually dispatched the Catholic Chancellor, it was the Junkers who had undermined his authority.

Von Papen's six-month term in office was only important in that he fell. His "Cabinet of Barons" was a barefaced attempt on the part of the Junker clique to reimpose its domination and prepare the restoration of the monarchy. That at least the German people would not stand. Their refusal to tolerate von Papen was

destined to be the people's last expression of democratic sentiment. Henceforth when they voted, they voted themselves into chains.

Von Schleicher, who followed von Papen, sought to profit by the latter's mistakes and to redress the balance. He fell foul of the Junkers, however, on several points. In one of his last editorials, written as the intrigues were thickening, Theodor Wolff said: "These weeks the hungry ravens are circling ever more narrowly round the ancient tower." Von Hindenburg was indeed besieged by the raven Junkers. And they, as Wolff continued prophetically, "during, before and since the war were always great patrioteers before the people and great profiteers for themselves. Why should it not be the same this time?" With dry sarcasm the great editor remarked that the makers of the Weimar Constitution had not foreseen the President's son.

The full story of the frantic palace intrigues of those weeks will not yet be disclosed. When it is, the "mystery" of Hitler's advent and the origin of the Third Reich will become much clearer. The root cause was, as ever, the desperate struggle of the Junkers to continue to overrule economic fact by political power. For almost the last time the Junkers betrayed their country and for the conservation of their great estates threw 65,000,000 people into the maw of fascism. Bruening had fallen because he threatened to exempt bankrupt estates from the proposed agrarian moratorium. Von Schleicher intended the same, but he did more. He encouraged the exposure of the scandals of the Eastern Relief Act (the *Osthilfe*).

It is unnecessary to go into the details of the sordid swindles uncovered by the Budgetary Committee of the Reichstag. Suffice it to say that

this fund for the provision of credits for agriculture in East Prussia was found to have become a Junker racket. Small farmers got little; the Junkers helped themselves. In every conceivable way these loud-voiced patriots, who for generations had battered on the German people, were caught red-handed robbing the till of their bankrupt Fatherland. Credits granted for the reconstruction of one property were found to have gone in the purchase of others. In some cases estates were "reconstructed" three times in succession, and on a fourth bankruptcy were ceded to a daughter who was a minor, in preparation for another raid on the fund. Others bought automobiles and hid them to the French Riviera. The press bore vicious headlines incriminating famous names and the waves of the storm washed high. The climax was reached when rumors began to circulate concerning the President's entourage.

Neudeck is the unpretentious estate in East Prussia upon which President von Hindenburg spent his boyhood, and for which he has a great attachment. Quite early in the heyday of intrigue the wildest and most cynical of the Junker clan, Herr Elard von Oldenburg-Januschau, conceived the brilliant idea of a "national gift" of the former family estate to the old President. Neudeck is rich in sentiment but poor in soil; it stands in urgent need of "reconstruction," a typical East Prussian estate indeed, which never has and never can pay its way. Installed at Neudeck, the President found himself surrounded and courted by noble families. There the simple old soldier became, like them, a needy squire. Little imagination is needed to link this factor with the stranglehold which Junkerdom had again established over politics by 1933.

The *Osthilfe* scandal caused a panic, and by no means only among those whose names were already disclosed. The sack of secrets was not exhausted when its mouth was sealed by the overthrow of von Schleicher. About Neudeck itself, for example, there was much that was not clear. The title deeds had been made out to Major Oscar von Hindenburg, the President's son and aide-de-camp, who for years had been increasingly the channel of reactionary approach to his aged father. It was freely rumored that no donation tax had been paid on the homestead and that provision had been made for future evasion of the inheritance tax. Clearly there were other quarters besides the Junkers to whom the Reichstag exposure was unpalatable. Ironically enough one of the first acts of the combine under the "anti-corruptionist" Hitler was to reclaim the documents laid before the Reichstag committee in connection with the scandal.

Much has happened since the Unification Bill of April 2 established the Nazi-Nationalist alliance in power for four years. Much that has happened has been unpopular with the land-owners. There have been forced levies of cattle and food by local Nazi units, in addition to the usual "voluntary" contributions to party funds. Unemployed are thrust upon large and small estates alike and must be fed and housed whether or not there is work for them to do. The Nationalist party has been dissolved; the Stahlhelm, which in 1932 von Papen threw into politics as a "Junker army" against the Brown Shirts, has been merged into the S. A. (Storm Troops). Hugenberg has been dismissed from the Cabinet.

Nevertheless, the big estates remained intact. Darré, the Nazi Minister of Agriculture and originator of

the party's land program, had publicly eaten his words. He had announced that "Nazi land settlement would have nothing in common with the Marxist methods of proletarianizing the country population," and in July he definitely declared that the great estates would not be touched. The title *Erbhofrecht*, or Peasants' Corporation, which came into force on June 12, did not concern the Junkers directly. Indirectly, however, it seemed to show the writing on the wall. Germany was to be a land of smallholders; the official commentary declared that *Bauer* (peasant) was to be a "new title of nobility," and this was followed by further regulations concerning the use of titles which would have been unthinkable a few months earlier.

The new law, loosely phrased, seemed partly designed to create an impetus which would not long tolerate even the secret subsidizing of the large estates. It was an ingenious scheme for combining two pet ideas of the Nazis, that of furthering autarchy, which eventually would not be healthy for industry, and that of the "de-commercialization" of agriculture.

Happily for the Junkers, this law has aroused the bitter antagonism of the peasants, who do not approve of being bound to the soil, with prices fixed by the authorities in Berlin. The rigid principle of primogeniture, which is an integral part of the scheme, is even more unpopular. The rule of all post-war changes of system is applying also to Germany; in their turn the Nazis are finding that peasant discontent is easier to foment than to satisfy.

It is in these circumstances that the Junkers judge their time for reasserting themselves to have come. To the outer world the fiction of a

united Germany is incessantly proclaimed. The Junkers and industrialists know better. They also know, however, that they themselves are no counter-attraction even for the disillusioned. Their solution is simple—back to the monarchy. Though it is doomed to failure, the moment chosen for the mention of it is inconvenient for the Nazis. If Primate Müller and his German Christians are supported by the Nazi State, the majority of church supporters are likely to be sympathetic. For the old régime, in industry and on the land, the revolution would be stayed at just the right spot; there would be subsidies again, but no more "socialism." The nationalist spirit would have been roused as never before, but its direction restored to the hereditary ruling class. And for many of the proletariat, as for some of the middle class, a monarchy after a terror would seem a blessing, for of necessity it would now have to be more lenient, if not more liberal, and it would not be in danger of going too far Left.

Of the Nazi hierarchy, however, Goering, the Premier of Prussia, would be almost alone to welcome it. Goering always had monarchical leanings; today both his relationship with the industrialists and his growing insecurity among his Nazi colleagues tend to increase his sympathy for the change. By so much the more do the "Socialist" Nazis become vehement in denunciation. "All over the land the reactionaries are stretching themselves," says Goebbels; "let them beware."

The "Second Revolution" was halted

by Hitler at the beginning of a dangerous Winter. It is about to start again. Its predestined victims are Schacht and Krosigk, guardians of "orthodox finance"; Kurt Schmitt, appointee of big business in the Ministry of Economics; a host of non-Nazi officials throughout the upper ranks of the civil service who have remained till the present on account of their experience. And with these will go the Junkers and their big estates. With the coming of Spring Point 17 of the "unalterable" program is due for revival: "We demand land reform adapted to our national needs, the enactment of a law for the uncompensated expropriation of land for public purposes, the elimination of land interests and the prevention of land speculation."

When that occurs one hope alone will remain for the Junkers. That hope is war, in which their services as officers still remain indispensable. The Junkers have war in their blood and their egotism is all-consuming. Not for nothing are the fortunes of Japan followed with such attention and such sympathy in the new Germany; Japan also came late to imperialism and is unsatisfied. For the Junkers especially Japan has become the centre of urgent interest, since the Junkers alone cannot make war today. For that they would need outside assistance and some discontent at home. That discontent in certain circumstances could well be focused on Point 1 of the Nazi Program, which reads: "We demand the inclusion of all Germans in a Great Germany on the ground of the right of self-determination."

Fascism Lures Japan

By BUNJI OMURA

[Mr. Omura has been associated in an editorial capacity with various Japanese newspapers published in the United States.]

CONDITIONS in Japan change rapidly, and today's diagnosis may not apply tomorrow. Yet a dispassionate view of the political situation in the Island Empire seems to indicate that the forces which make for a highly nationalistic, non-parliamentary government able to act quickly—a Fascist government, in other words—are rapidly consolidating their strength. National Socialism of the German and Italian brands has made a great appeal to certain elements within the country, first gaining wide attention, perhaps in the Summer of 1931, when Katsumaro Akamatsu, chief secretary of the Shakai Minshuto (Social Democratic party), declared his conversion to Fascist doctrine. A year later he organized a National Socialist party, which has had a phenomenal growth in both urban and rural districts.

The aggressive military group which has controlled Japan for the past few years, moreover, is essentially Fascist in spirit, since it is desirous of stamping out all opposition in order to achieve its bold ends. Whether the recent resignation of Sadao Araki, dynamic Minister of War, foreshadows a weakening of the army's grip is impossible to say at this time. But even were this the case, the unrest among the masses of the people is such that a movement toward reorganization of the bases of Japanese political life would continue

to haunt those few who still believe in democracy or that other small group which had hoped for a revolution from the Left.

The common man of Japan has become Fascist-minded for a variety of reasons. For some time he was content to remain an economic and political nonentity, but more recently he came to feel his strength and to realize that the rugged individualism which permeates most of the civilized world has made him but a pawn in the capitalistic chess game. On May 15, 1932, Premier Takeshi Inukai was assassinated and public buildings were bombed by a band of young military men and farmers. The incident was more than an isolated political act, and marked the first attempt of disgruntled elements to obtain control. If another such attempt is made, its success will depend largely upon the interim development of certain factors which were the causes of the outrages in May, 1932. These are the economic plight of the farmer, industrial unemployment, the failure of the franchise, the maldistribution of wealth, and military participation in politics.

The farmer's basis of complaint is easily understood. About one in every three families in Japan is engaged solely in farming, and the arable land for the support of an agricultural population of from 25,000,000 to 30,000,000 is only 14,500,000 acres. Naturally, the individual income is very small, and of this pittance the farmer pays to the government 31.36 per cent

in taxes, while the manufacturer and merchant pay only 13.52 per cent. What is more, rice, the principal agricultural product of Japan, sold in 1933 at 23.30 yen per koku (a koku is approximately 5 bushels), while the cost of production was about 25.60 yen. In addition, nearly 70 per cent of the farmers are tenant-farmers, and their high rentals have led to increasing disputes with landlords—rising in number from 1,000 cases in 1921 to 2,756 in 1932.

Be the harvests poor or abundant, the farmer's income is meagre. If the main crops—rice and cocoons—are small, the high price does not benefit him; if they are abundant, he is at the mercy of a ridiculously low return. In 1930 there was a record rice harvest of 66,876,000 koku, or an increase of 13 per cent over the average harvest for the preceding five years, but the decline in value was more than 40 per cent because of the slump in rice prices. The cocoon crop in that year, as well, came to the unprecedented amount of 106,463,516 kamme (1 kamme is 8.26 pounds), or an increase of 16 per cent over the average yearly production, but the producers' receipts, because of a 50 per cent fall in cocoon prices, dropped to half of those for 1929. The result was a "rich harvest famine" for the farmers in 1930. In 1931 the harvest of rice and cocoons was so poor that the farmer's income from these two chief crops declined further than in any preceding year. And estimates for 1933 foreshadowed a rich crop but poor returns because of low prices.

In consequence, Japanese farmers are deeply in debt. In June, 1932, the government rated the farm debt at 6,000,000,000 yen (about \$3,000,000,000 at par), and that of small merchants and industrialists at 2,000,000,000 yen. Nearly two years ago, there-

fore, the debt of the masses stood at 8,000,000,000 yen—and it has certainly increased greatly in the meantime, for the rate of interest on bank loans in Japan in recent years has never been below 9.6 per cent and is often as high as 12 per cent. The enormous burden imposed by these obligations will be understood when it is realized that Japan's national debt on March 31, 1931, was only 5,959,000,000 yen, and that even after an extraordinary outlay for the Manchurian expeditions it stands in 1933-34 at only the 8,000,000,000 mark.

The farmer's problem cannot be settled until the agricultural debt is liquidated, and the debt cannot be liquidated by ordinary methods without serious consequences. If the creditors, for the greater part big banking interests, should insist on foreclosing mortgaged properties, there would be a repetition of the deeds of the terrorists of May, 1932. One of those terrorists, an army cadet, has testified that he was moved to action because all the inhabitants of his native village had lost even their personal belongings after the creditor bank foreclosed, and that he saw direct rebellion as the only justifiable solution of the problem.

The Japanese Government has not been entirely indifferent to the situation. When the coalition Cabinet headed by Viscount Saito came into power after Premier Inukai's assassination, the Diet was convoked twice in a special session during the Summer of 1932, and the second meeting was devoted solely to farm relief legislation. Laws were enacted by which the sum of 1,600,000,000 yen was made available for distribution among the farmers in the shape of direct grants, public works, loans and debt adjustments. Other administrations had essayed to facilitate agricultural management

and to settle disputes amicably by enacting the Tenancy Law and the Tenancy Arbitration Law. The Rice Control Law had been passed for the purpose of fixing the price of that commodity through the regulation of supply and demand. In addition, other measures had granted subsidies for arable land adjustment, advanced loans at low rates of interest, expanded the agricultural administrative organization and, finally, set up the Department of Agriculture and Forestry as an independent unit to aid the tiller of the soil.

Nevertheless, despite the cooperation of the farmer, these remedies had proved inadequate, and the direct grant of 1932 was found necessary. With later turns of events, however, even this subsidy has been curtailed—on the pretext of the pressing necessity for expenditure on national defense. The military group in the government demands an ever-increasing share of the nation's funds (29 per cent in 1925, 45 per cent in 1934), and the farmer finds himself thereby deprived of his recently won recognition.

The wage-earner, as well as the farmer, has been a victim of depressed business conditions. A census taken in 1925 showed 105,612 day laborers, industrial employes and white-collar workers unemployed in twenty-four Japanese industrial centres. By 1930 the figure had reached 350,372; in 1931 it was 387,460; in 1932, well over 500,000. These figures are not altogether reliable, and the Institute of Labor Research insists that the number of unemployed has been as high as 1,500,000. In addition, it is estimated that there are about 300,000 farm hands in need of jobs, and most of those who have benefited by farm relief measures will be left uncared for at the end of this fiscal year. The army leaders contend that military expen-

ditures will aid employment, but actually such spending affects but a small proportion of the working population.

Thus Japan contains large bodies of disaffected citizens, and these have little or no chance to influence their lot by constitutional means. The right to vote, hailed as a great national blessing, has proved disappointing. Manhood suffrage was put into practice in 1928, and when eight men were sent to the Imperial Diet to represent the popular will the relatively disorganized masses rejoiced at their recognition. But suppressive measures soon put an end to the "golden age" of proletarian political expression, and in the years since 1928 the masses have lost ground once more. In 1930 the Social Democratic and Farmer-Labor parties had only five seats in the national legislature; at present they have but four. The two great parties, the Seiyukai and the Minseito, together control 415 of the 458 seats in the present Diet, and these two parties represent the monster Mitsui and Mitsubishi interests, respectively.

How futile so-called constitutional means must be under the present economic system can be better seen from a brief survey of the distribution of wealth. Economic power is concentrated in the hands of a few. Among the 67,000,000 people of Japan less than a dozen men dominate the ever-growing material possessions of the empire. Besides the Mitsui and Mitsubishi houses, there are the Sumitomo, Yasuda, Asano, Shibusawa, Kawasaki and Okura interests. In 1930, for instance, the aggregate holdings of these groups were 38 per cent of the deposits in the commercial banks, 73 per cent of the trust properties, and 26 per cent of the liability reserves of insurance companies. They con-

trolled also a great volume of investment in various other directions.

The largest of these financial houses is the Mitsui, which, with its capital of 1,200,000,000 yen (comprising the Mitsui Bank, the Mitsui Trust, the Mitsui Life Assurance, the Mitsui Bussan, the Mitsui Mining and the Toshin Warehouse companies) is the economic colossus of the country. In addition to these, there are more than 130 other companies under complete control of the same interests, with a total authorized capital of 1,240,000,000 yen. The Mitsui Bussan, an import-export concern and the largest of the units, handles about 30 per cent of Japan's entire foreign trade.

From the Mitsui and similar aggregations, obviously, the Japanese farmers and workers expect little help. The other dominant force in the government, the military, however, has at times been a source of assistance. This quasi-alliance of military and agricultural interests is not surprising, for more than 70 per cent of the army recruits are the sons and brothers of farmers. Furthermore, a large majority of the ranking officers are either from the same class or from the lower strata of the urban population. They are not only in sympathy with the agriculturists but also nurse a grievance against the great industrial interests and their political representatives. It is for this reason that ex-Minister of War Araki had become a popular hero. His support of farm relief measures, even though these measures were partially withdrawn in 1933 at the time when great sums were needed for financing the Manchurian warfare, had identified military aims with those of the common man. Araki, moreover, had cooperated closely with Fumio Goto, Minister of Agriculture and Forestry.

Nor is this affiliation between the

army and the people of recent date. For many years there had been a breach between the expansionist military group and certain Minseito leaders who were able to effect a program of retrenchment and conservatism in government expenditures which strengthened the position of the vested interests. Only in September, 1931, when the crisis in Manchuria forced the issue, could Araki and his associates successfully denounce the government and party politicians for their timid attitude toward China. Demanding an end to the "selfish" and "corrupt" dealings of the capitalistic elements in the government, the army asked a single-party rule under the direct control of the Emperor. At this time Araki also championed the cause of the farmer, and prophesied the extinction of this basic industry if relief were not immediately granted. Though the Japanese were unaccustomed to the participation of military men in general politics, the farmer and the industrial worker began to feel that the army alone could save them from the hands of the capitalists and their henchmen.

Araki's views were approved by some party politicians, and in the Winter of 1931 the Minseito Cabinet under the Premiership of Wakatsuki was forced to resign. A new government headed by Takeshi Inukai, with Araki as Minister of War, was formed; yet conditions did not improve and the May, 1932, assassinations followed. The leaders of Seiyukai leanings had not been able to effect a change, and the violent methods of direct action were resorted to.

Thus constitutional means are apparently unable to effect the desired improvement in the lot of the Japanese people. The Manchurian struggle produced a crisis which seemed to promise extended reform at home and

put the army in power, but the crisis was of too short duration and no fundamental changes were brought about. A revolutionary movement from the Left is highly improbable, for no efforts have been spared to eradicate all traces of communism. According to authentic sources, 27,500 persons suspected of radical inclinations have been arrested in the five years between 1928 and 1933, and 2,500, including Dr. Hajime Kawakami, leader of Japanese communism, have been convicted and sentenced.

Industrial workers have been organizing—in the decade 1921-31 the number of labor unions grew from 30 to 710—and strikes, almost unknown ten years ago, numbered over 2,000 in 1932. But the factions which had been inclined to the Second or the Third International have been much shaken by the nationalistic activity of Soviet Russia herself, and one by one have swerved away from the Comintern. Even the extreme Zenkoku Rono Tai-shuto (Farmer-Labor party) has deserted the ranks of the internationalists.

Fascism seems to be the answer. There have sprung up within the last

few years numerous organizations intended to bring Japan's citizens into closer contact in order to promote national unity. One of them is the Kokuhon Sha, headed by Viscount Hiranuma, vice president of the Privy Council. It includes General Araki; K. Suzuki, president of the Seiyukai party, and Koki Hirota, Foreign Minister, among its members. The pressure from such groups and from the dissatisfied farmers and workers is a mighty one; they want a "leader," a national unity that will be disturbed neither by a Diet nor by political parties but directed toward security for all rather than exploitation by a few. Moreover, the dismal possibilities of war are not overlooked in the Island Empire, and the movement for achieving national security under the non-partisan rule of the Emperor is likely to proceed with irresistible force. Safety from without and prosperity for the common man at home are promises impressive enough to lure the Japanese citizen to support a Fascist dictatorship. If such support is actually forthcoming, it will herald the beginning of a new epoch in Japanese political and social life.

The Blight on Holding Companies

By JOHN W. HESTER

[Mr. Hester, a member of the North Carolina bar, is now engaged in the legal department of the closed-bank division of the RFC.]

HOLDING companies, like governments, must be administered by men, and when they fall into the hands of racketeers instead of men of honesty and integrity they then become instruments of ruin. The public is concerned far more with preventing the abuses which have attended the development of the holding company than with its destruction, for there is a legitimate field in which the holding company may operate; to confine it to that field under proper control should be the objective of public policy.

Recent experience, however, makes it difficult to remember the good side of holding companies. About three years ago Martin J. Insull debated with James C. Bonbright, Professor of Finance in Columbia University, in the *Public Utilities Fortnightly* on the question of regulation for public utility holding companies. Mr. Insull took the negative, Professor Bonbright the affirmative. But today Martin J. Insull and his brother Samuel are fugitives from justice and the unregulated Insull utility empire is in liquidation. Moreover, many of Chicago's financial institutions as well as thousands of investors have been ruined because public utility and investment companies were unregulated.

Chicago's banking institutions and its investing public are not without sympathetic and kindred sufferers

in other sections of America where unregulated and unsupervised holding utility companies and utility investment trusts have been active. Cleveland had its brother wonders, O. P. and M. J. Van Sweringen, who corralled seven major railroads into one giant system with an out-of-pocket investment of only from .2 to 1.7 per cent of the total capital involved—a credit and capital pyramid made possible by the device of the holding company. Result: Cleveland's principal banks are in liquidation, its municipal credit crippled, if not permanently damaged, and its industrial and residential development warped and twisted out of line with the natural and normal. Yet its two distinctions remain, the Van Sweringen brothers and the Terminal City—the last a monument to building-madness.

And Detroit! Well, it succumbed to the holding-company idea also, and scrambled all its banks and most of those of the State of Michigan into two giant bank-holding corporations. The head of one was a "glad-hand" bond salesman from Chicago by the name of Robert O. Lord, who, according to a national bank examiner's report inserted in the record of the Senate Banking and Currency Committee hearing on Dec. 22, 1933, was of the "promotion type" and "was not a banker, and never has been and never will be." Yet he was head of one of the two Michigan bank giants—together they controlled 223 Michigan banks—with resources under his control amounting to more than \$500,-

000,000. Before his bank got into trouble, he was the outstanding group-banking advocate of America. Remember, it was his bank's troubles, along with the similar difficulties of its competitor, that a year ago precipitated the Michigan bank holiday which led to the national bank holiday. Thus the suspension of the nation's banking facilities at the beginning of the present national administration had its inception in the collapse of an experiment with bank-holding companies.

It would be grossly unfair to attribute to the holding company alone the troubles that have arisen in Chicago, Cleveland and Detroit. True, the courts have recently characterized the Insull companies as "glorified gambling institutions." But the fact that Martin J. and Samuel Insull have been shown to be financial adventurers who used their companies for their own aggrandizement is no reason for the American Telephone and Telegraph Company, a multibillion dollar institution, being subjected to censure because it has some of the attributes of a holding company; or that the Pennsylvania Railroad Company should be condemned as partly a holding company because of shoe-string financing elsewhere by the Van Sweringen brothers. Nor should the attack be directed against the adequately financed Commonwealth and Southern Corporation of New York, a public utility holding company that has canceled its objectionable service contracts with its subsidiary companies and made such service available to operating companies upon a cost-plus basis.

Consequently, it is a matter of eliminating, either by the weight of public opinion or through legislation, the abuses to which the holding company is subject. At present there is no way to prevent, for all practical purposes,

the complete separation of control from the actual ownership of a public utility. Such separation cannot possibly be conducive to the lasting good of the public or the utility, and no amount of legal or economic sophistry can make it so.

For instance, suppose we have an operating company or companies whose outstanding bonds, preferred and common stock total \$150,000,000 divided into three equal amounts. The common stock carries the voting rights and hence the control. Some scheming bankers and their associates desire to gain control of these companies. All they have to do is to buy 51 per cent of the common stock, or invest a little more than \$25,000,000. As they do not want to invest that much, they form a holding company and issue stock and bonds for the amount of the original investment in the form of \$10,000,000 bonds, \$10,000,000 preferred and \$5,000,000 common stock. Of the last they retain 51 per cent, or \$2,500,000, which gives them control. But they desire to have even less in the enterprise, so they form another holding company and again issue bonds and stocks—\$1,000,000 in bonds, \$1,000,000 in preferred and \$500,000 in common stock. Of the common they retain 51 per cent and thus by investing just over \$250,000 control, by this method of pyramiding, properties valued at \$150,000,000. Can it be said that such a manoeuvre benefits the properties or the public? To ask that question is to answer it.

This is no fictitious or fanciful situation. Hearings before the Federal Trades Commission have disclosed that in some instances as many as nine companies exist between the controlling company and the operating company. One company, for example, in 1930 had outstanding stock with a

book value of only \$8,000,000, yet completely dominates the Associated Gas and Electric Company system, whose controlled and subsidiary companies are worth \$1,200,000,000. It is not surprising that H. C. Hobson, the vice president of this holding company, testified before a New York State Commission on Jan. 15, 1930, that he could not recall in what companies he was a director or officer or even the nature of the business conducted by some of his companies.

Yet the problem is not one of portraying holding-company monstrosities; rather is it a question of what, if anything, may be done about them? Manifestly, nothing is to be done outside the industries and businesses "affected with a public interest," and in that area we shall limit our discussion to the public utilities—gas and electricity. Had it not been for the legal fiction that the company that owns or controls the stock interest in a railroad or utility is not itself engaged in the business of a common carrier or a public utility and therefore "not affected with a public interest," it is doubtful if holding companies would have developed to the extent that they have during the past two decades. The desire to escape State and Federal regulation has furnished the principal incentive for the use of this corporate device. To defeat this purpose the legal fiction must be destroyed, for it is both absurd and illogical.

It is just as logical to contend that a watershed, however much polluted, will supply a stream of pure water as to contend that an operating company is not affected by the power that actually controls it, or that the power thus in control is not "affected with a public interest." There is no such thing as the insulation of "public interest" at the point of contact between the

operating company and its owner. On the contrary, such interest necessarily attaches to and includes the controlling company, be it immediate or some nine companies removed.

After decades of wasteful expenditures by competing carriers and utilities, with resulting inadequate service, the general public has admitted that the common carrier and the utility are natural monopolies, but subject to regulation and entitled to only a fair return on their investment. The trouble is, and has been, that the common carrier and public utility owners want to separate the monopoly privilege from its counterparts—regulation and a fair return on investment. This separation the public will not permit, and the sooner these owners recognize this fact the better for all concerned; otherwise, there is the alternative of public ownership.

The unwillingness of utility owners to accept monopoly privileges with regulation and a small, but sure, return has been the cause of a bitter struggle for two decades. To this attitude of the utility owner can be attributed the persistent and finally successful fight that the old tribune of the people, Senator George W. Norris of Nebraska, has made against private ownership of Muscle Shoals. On the part of the utility owner the fight has been based upon a most unusual argument. Formerly the privately owned and operated utilities contended that government operation was wasteful and expensive in comparison with the privately owned and operated utility. But the private utilities opposed government operation at Muscle Shoals despite the fact that it was generally understood from the beginning that operation would be undertaken very largely, if not entirely, for the purpose of establishing a norm or standard by which to de-

termine the actual cost of electric service to the various classes of consumers. Such opposition necessarily raises the question of good faith on the part of the private utility. Does it fear to have the test made and the results registered?

Now the battle is in progress along an extended front—in the field of actual competitive operation and before the commissions and the courts. President Roosevelt has created the Tennessee Valley Authority to determine costs in their various forms, and the Federal Power Commission, under the chairmanship of Frank R. McNinch, is putting "power" into the Federal Water Power Act of 1920. This act provides for the licensing of power projects on navigable waters and public lands; and when a license is exercised by the construction of a project, it then becomes the duty of the commission to determine the "actual legitimate original cost" of such a project. The purpose of the act is three-fold: To improve navigation under the interstate and foreign commerce clause of the Constitution; to form a basis for the determination of a fair return upon the investment involved; and to know in advance what will be the cost of exercising the recapture option at the end of the license period of fifty years.

The act was first interpreted and applied in the case of the Mitchell Dam project on the Coosa River in Alabama, built under a license issued in June, 1921. The disputed items of cost came up for hearing before the Federal Power Commission in 1932. The Alabama Power Company, the licensee, asked to be allowed \$3,500,000 for project lands, water rights and franchises that originally cost less than \$100,000. Furthermore, it sought permission to pay a service fee of \$187,540.15 to the Dixie Construction

Company, a subsidiary of the licensee. The commission disallowed this fee entirely and allowed only \$75,135.09 for the original cost of the project: lands, water rights and franchises.

It was disclosed that the old Alabama Power Company, before the era of mergers, paid the sum allowed for the project lands, water rights and franchises, but that a new company issued 70,000 shares of its stock to the old company in exchange for only 50 shares of the same par value of \$100. In speaking of this transaction Chairman McNinch, then a minority member, said in a concurring opinion:

"That the directors of the several merging corporations passed resolutions declaring the assets of the merging corporations to be worth the greatly enhanced sum that the merger corporation was paying is not convincing when we know that there was no opportunity for independent dealing and that such consent to and approval of this inflated value was only *pro forma*. In such circumstances it is our duty to look at this transaction with a scrutinizing eye and also to 'pierce the veil' to discover the dictator or parent to whose imperial will its child is necessarily subservient. It is likewise my opinion that officers and directors of public utilities are trustees not only for the stockholders but also for the public affected by their official action, and that they fail to discharge this duty if they permit or encourage trafficking in public-utility properties to the undue advantage of the stockholders and against the legitimate economic interest of the consumer."

And "trafficking in public-utility properties" is emphatically condemned by the commission as it is now constituted. In an opinion of the commission written by Chairman McNinch in October, 1933, the clear-cut, defi-

nite doctrine was set forth that there would be no allowance of profits to a service company when it and the operating company were under the same control and ownership. This declaration was made when passing upon the disputed claims of the Louisville Hydro-Electric Company, licensee, for allowance of a service charge of 7½ per cent to the Byllesby Engineering and Management Corporation, the service company of the system of which the licensee was a part. This claim amounted to \$481,533.48 on a project costing just a little over \$7,000,000, and was in addition to the actual cost of construction and for a service the cost of which was not disclosed to the commission and was therefore denied.

In this set-up involving the licensee, the Louisville Hydro-Electric Company; its owner, the Standard Gas and Electric Company; the latter's owner, the H. M. Byllesby Company—the top owning and controlling company of the system—and the Byllesby Engineering and Management Corporation, the service company for the system, there is a problem in inter and intra corporate relationship that would baffle the best corporate analyst. Fortunately, it was admitted that the Byllesby Engineering and Management Corporation was the service company for the Standard Gas and Electric Company system and that it had with all the operating companies of the system, with the exception of the licensee, contracts running over a period of twenty-one years by which it exacted for engineering and management service a total fee of 9¼ per cent of the gross receipts of the companies in the system. A similar contract, but for only ten years, existed with the licensee.

At the hearing it was further shown that this service feature—engineering and management—of the Byllesby

Corporation in five years from 1922 to 1927 amounted to \$29,064,187.43 gross, but at a cost of only \$15,888,487.90, leaving a clear profit of \$13,175,699.53. This sum represents the profits to the service department, for that is what it was, of the top holding company of the Standard Gas and Electric Company system, a system that in 1930 had 1,614,414 customers in twenty States with assets amounting to the staggering sum of \$1,200,000,000.

The vice of the whole scheme appeared when it was shown that the Byllesby Engineering and Management Corporation's stock of 100,000 shares, valued at \$1,000,000, did not represent the investment of a single penny but merely the capitalization of the service contracts with the operating companies of the system, and that the stock was entirely held by the Standard Gas and Electric Company, the underlying holding company of the system. Here we have vividly portrayed the double-edged qualities of the holding company through its service company—cutting away dividends that should go to the real investors in the utility issues as well as cutting away reductions in cost of service to the consuming public. It was to meet just such unconscionable conduct that the commission issued in this case the following unequivocal declaration:

"When there is common control of the service company and the operating company, the two being virtual departments of an integrated system, with power implicit therein arbitrarily to dictate contracts and fix charges for services, the commission will disregard the contract and demand evidence of the cost to the service company of the services rendered, for under the Federal Water Power Act the allowable cost to the licensee for *construction* and *other* service can

be no more than the cost of such service to the service company under common control with the licensee."

Thus it appears that the commission, under the McNinch chairmanship, is actually putting "power" into the Power Act. But the area of regulation and control by the commission is limited to navigable waters and public lands, the use of which requires a preliminary permit and final license—an unfortunate limitation for the public. Especially is this true when it is remembered that the twenty-odd billions of dollars invested in utilities and the millions of customers now being served represent only a beginning of gas and electric development in the United States. Our land frontiers have been occupied, but the physical-need-and-convenience frontiers to which gas and electrical service may be extended have not even been sketched by the most sanguine in the utility field. To one who can visualize its possibilities, the need for supervision and regulation by a capable Federal commission is imperative if uniformly fair treatment of the utilities, the investing public and the consumer is to be assured. At present the commission, by control of the operation project, can only make this mermaid of a system present to the public the face of a fair maiden, while its body and tail remain the body and tail of a fish.

It is fallacious to argue that it does not matter who owns the stock interests of the utility companies or who owns the top holding companies of the operating companies so long as the rates that may be charged for the service rendered the public are subject to commission control, either State or Federal. In the first place, the utilities themselves do not benefit by disfranchising the investors. This disfranchisement is achieved by one of two devices: First, by securing legal con-

trol in the sense that the holding company has the power to elect all or a majority of the board of directors; second, by a factual control resulting from a widespread diffusion of stock ownership.

Legal control is effected in any one of several ways: (1) By issuing large quantities of bonds and debentures by both the holding and operating companies, thereby giving control to the owners of the stock issues; (2) by issuing preferred stocks, either with no voting power at all, or with the right to vote contingent upon the passing of certain dividend periods; (3) by issuing several classes of common stocks or participating stocks, with only one class possessing the voting right; (4) by issuing a special class of cheap stock heavily loaded with voting rights so as to give its possessors actual control; (5) by creating voting trusts, by which the voting stock is placed in the hands of a committee for a definite period; (6) by issuing to the controlling interests large quantities of stock-purchase warrants by which the voting stock may be acquired as the needs of the controlling interests warrant; and (7) by including in the holding company charter a provision by which the shareholders waive the right to buy any new stock, thereby giving the controlling interests the power to protect themselves by issuing new stock to themselves as the need arises.

Factual control is effected by a great diffusion of the common stock, while the controlling interests own a substantial minority interest, yet are secure because of the difficulty involved in the pooling of interests on the part of the majority owners.

The foregoing constitute generally the devices by which control of the operating companies is acquired. The profits to the controlling top com-

panies consist not only of the dividends on stocks held by the controlling companies but of profits from subsidiary operating companies obtained through service contracts, of which the Byllesby Engineering and Management Corporation is an example. At this point we see the inherent evils of the holding company method, for here it is that both the investor and the consumer are bled white, the investor of his legitimate returns and the consumer of justified reductions in the cost of service.

But other vices inhere in the holding company system, particularly the tendency to overcapitalization and mismanagement on the part of the controlling company and its definite, though subtle and indirect, influence upon the bodies fixing rates to the consumer. The attempt of the Alabama Power Company to capitalize properties that cost its subsidiary only \$76,000 at \$3,500,000 is a recent example of the tendency to overcapitalize.

The classic historical examples of such overcapitalization, or watering of stock, are the Northern Securities Company, whereby two railway systems costing only \$278,000,000 were acquired and capitalized by the holding company at \$400,000,000, thereby bringing the promoters of the merger a net profit of \$122,000,000, with an out-of-pocket expenditure of only \$30,000 in attorneys' and filing fees; and the United States Steel Company, a pure holding company which paid \$1,100,000,000 in bonds, debentures and preferred stock for the properties bought, the promoters of the scheme thereafter issuing to themselves 1,000,000 shares of common stock which was marketed at \$50 per share, whereby they picked up the neat sum of \$50,000,000. Upon this common stock handsome dividends have now

been paid for thirty-two years. One question that arises is what might today be the result if these dividends had been retained as emergency reserves. Would the average employee of the company be a charge upon charity or a beneficiary of the government under the CWA?

As long as human nature is human nature, there is no use in contending that regulatory commissions are not susceptible to the appeals, informal and inarticulate though they be, of investors in the bonds and stocks of a utility or carrier mismanaged by a holding company. A concrete affirmative answer to this argument can be found in the case of the New Haven Railroad whose financial difficulties arose from holding company mismanagement. In this instance the State Commission and even the Interstate Commerce Commission granted the carrier all possible favors in the way of rate regulations in an effort to enable it to rebuild on a sound and prosperous financial basis. It might be mentioned, in passing, that the experience of this carrier was largely responsible for the enactment of that feature of the Transportation Act requiring that railroad issues be subjected to commission control. Recent revelations in the utility field make such supervision of utility issues likewise necessary.

Nevertheless, there are encouraging and hopeful signs. Some directly interested in public utilities have sensed the danger of public ownership and operation unless management is divorced from the vicious practice of a controlling company dealing at a profit with its subsidiaries. Long ago it was made a crime for a public officer to trade with companies in which he had a financial interest. The public weal demands the same high ethical standard in the utility field, for offi-

cers and directors of the operating and controlling companies alike are trustees on the one hand for their stockholders and investors, and on the other for the consuming public.

This principle the Commonwealth and Southern Corporation of New York recognized and incorporated in dealing with its subsidiaries by cancelling service contracts and making the service available at cost, distributed over the system on a *pro rata* gross-income basis. If the rate charged proves to be in excess of the actual cost, the excess is refunded in dividends to the operating companies. In this way the operating companies, the investing public and the ultimate consumer enjoy the advantages of centralized management with its engineering, construction, purchasing, financing and legal service of a type unavailable to the small independent utility.

This action by a discerning holding company suggests the way out of the present generally indefensible control of operating companies. To the extent to which the Commonwealth and Southern has gone, its leadership deserves to be followed. But there is no reason why any holding-company pyramid should exist. Gas and electric utilities are indispensable in modern life; but they must be adequately financed, and therefore investors have to be assured a fair return on their money. The present hostility to the utilities is the result of the star-chamber, short-changing methods of those now in control of the utilities. If this

ill will is to be overcome, utility operation, from the controlling company to the operating company, will have to be open for inspection. The accounting system, stock issues (whether par or non-par), management, engineering and legal service, and construction and manufacturing departments should hide nothing from the regulatory bodies. In short, only trade secrets, which the various regulatory bodies could be relied upon to protect adequately, should be concealed from the consuming and investing public.

There is a formula by which the utility problem may be satisfactorily solved, and until this formula is generally adopted, confusion, agitation and loss will continue. When those in control of the utilities realize that there are really only three factors in this gas and electric utility business—service, the investor and the consumer—the utility problem will be solved. Service should come first, and the actual investor and consumer second, but each of them ought to be accorded equally fair consideration.

The men who control the utilities do not own them any more than the present national administration owns the Federal Government. Their position is that of trusteeship, for which they should be adequately compensated, and with that they should be satisfied. This objective must be attained; otherwise, public ownership is inevitable, for the day of the Insull "glorified gambling institutions" is over.

The Spur to Soviet Farming

By THOMAS CARMEN

[An American journalist formerly on the staff of the *Moscow Daily News*, Mr. Carmen had ample opportunities to observe at first hand events in the Soviet Union.]

THE Soviet Union last year passed through one of the most critical periods in its history. At the beginning of 1933 the outlook appeared unfavorable; at the end of the year spectacular gains had been made in every field of endeavor, not least in agriculture. A year ago conditions on the Russian farms necessitated a change in government policy in order to attain the goal of socialized agriculture. This was the creation of political sections at the tractor stations and on the State farms, a move which involved the transfer of 15,000 picked Communists from various important posts.

Every one chosen for these political sections had to have a background of experience, good sense and unquestioned loyalty to the State and to the principles of collectivization. Nor was it merely members of the Communist party who were wanted on the farms—party members were already there—but men and women capable of acting as organizers and leaders and of dealing wisely with the social and economic problems that confront the peasant. Of all the advertised shortages in the Soviet Union, the greatest is that of competent leadership. Men and women who combine ability and political trustworthiness are needed on more jobs than they could possibly fill in a lifetime.

There were no radio appeals for vol-

unteers; there were no advertisements; yet the recruits were found. The secretaries at the Central Committee offices turned to their files, and presently men and women in Moscow, in Gorki, in Rostov, received notice to appear before the Central Committee in connection with work on political sections. It was a great honor to be sought for this work, because the call indicated recognition by the leaders of the nation. Yet in many cases it meant great personal hardship and sacrifice for the individuals involved. No excuses were accepted by the Central Committee, and once suitable members for political sections had been found nothing short of a miracle could prevent appointment, that is, if the person in question still cared to retain party membership.

The political "sectionnaires" were recruited from every walk of Soviet life, and particularly from non-productive occupations. The Moscow Institute of Red Professors was thus stripped of half its student body. There was, for instance, Volodya Kapatov. He was born of a middle-class family and at the age of 17 threw in his lot with the Revolution during its earliest days. As secretary to a commissar of a Red Army division he fought all through the civil war and remained in the army as an educator until 1930. He then joined the Institute of Red Professors and had begun studying English before going, as he intended, to the United States to complete a study of American economics. But the call of the Central Committee ended

that. Though the assignment to head a political section in a remote part of the Ukraine took him away from his academic career, Kapatov did not flinch. He was a party member. He had taken his stand in 1917 and he had never swerved from it. The Central Committee showed wisdom when it selected him, and, judging by the widespread improvement in agricultural activity throughout the country since the political sections were created, the other leaders must have also been carefully chosen.

If the formation of political sections was the outstanding measure of the year in the party's determination to build up Russian agriculture, two other factors also came into play. By a decree of Jan. 20, 1933, a fixed tax on agricultural produce was substituted for the so-called contractual system, which at times left the peasant without grain for his own use. Less tangible but no less potent was the changed attitude of the peasants toward collectivization, which was formerly passively resisted by large sections among them. This damaged the agricultural economy as much as did the outbursts of arson and violence by the village kulaks.

Stalin, at the Congress of Collective Farm Shock Workers held in the Spring of 1933 in Moscow, divided the peasantry into three groups. Out of every 100 village households, he said, 15 belonged to the kulak, or well-to-do, categories; 45 to 50 to the middle category, and 35 to the poor. While the stories of resistance to collectivization of the kulaks must be accepted as authentic, it is also true that it would not have been so destructive if the vacillating middle group had been won over to the side of the poor, who, as a rule, stanchly supported the collectives. But in many sections of the country inadequate local leadership

antagonized the middle group of peasants and drove them into a passive but stubborn resistance by which they hoped to defeat collectivization.

In the Winter of 1932-33 the peasant underwent a change of mind, and later a change of heart also. Even before the decision to create political sections had been made and the decree for a fixed tax announced, the peasantry began to realize that the government meant business, that collectivization had come to stay and that the immediate effect of sabotage would injure the farmers more than any other element in the population. They were faced with the choice either of working honestly for the collectives, regardless of all shortcomings, or of perishing. The law of self-preservation aided the proponents of collectivization and thus paved the way for a new start.

Since previous encounters with local Communists had not been very happy, the creation of political sections was presumably not considered particularly significant by the peasant masses. It did not seem to them that the infiltration of new party forces into the villages would tend to improve their lot in any way; nor could they have been certain that the new tax decree, which held out the promise of leaving them with a surplus of grain, would not be violated. Promises they had come to regard with a great deal of suspicion. They went to work with a new zeal early last Spring because of an altered psychology rather than as a direct result of the new government measures.

As the months passed by, however, the peasants became aware of attentions which hitherto had not been bestowed upon them. The members of political sections were a new type of Communist. Not only were they invested with power but they showed

both understanding of and sympathy with the collective and individual farmers in their difficulties. There also began an unprecedented flow of consumers' goods to the villages. According to data furnished by the People's Commissariat of Supply, the shipment of consumer commodities to the countryside increased by nearly 900,000,000 rubles over 1932.

Kerosene, for instance, which had never been lacking in the industrial centres, was not always available in the rural districts. But last Spring conditions were reversed. This staple, scarcely obtainable in Moscow, ceased to be a scarcity in the villages.

Something still more extraordinary occurred as the harvesting season began. In the Odessa Province local leaders had advanced a "counter-plan" for grain collections; they proposed to collect more grain from the peasantry than was lawful according to the fixed-tax decree. At once those responsible were removed from their positions and some were imprisoned. Similar cases elsewhere in the Ukraine were dealt with in a like manner, for the government was anxious to demonstrate to minor leaders throughout the country and to the peasantry that it was in dead earnest about its pledge and that violations would not be regarded lightly.

It is the rôle of the political sections to see that the agricultural policies of the Communist party are adhered to. Without attempting to usurp the functions of the officials at the machine tractor stations, of the local party organization, of the village Soviets, or of the State and collective farm administrations, the political sections strive to direct the efforts of each along party lines and to correlate and coordinate their activities. They must interest themselves in everything but in a manner that will an-

tagonize no one. Are the tractors or combines standing idle too much of the time? Are there field kitchens to serve the harvest workers? Has a frog been found in the soup? Is the nursery functioning as it should? Is Piotor Ivanovich really a kulak in disguise carrying on subversive propaganda? These are some of the questions that clamor for the time and attention of the political sectionaire.

While the underlying purpose, of course, was the transformation of the collective farm into an efficient producing unit, the chief aim was to fix responsibility and to introduce a system of awards commensurate with individual efforts. The principles of the commune were rigidly banned as premature and therefore destructive. As in industrial enterprise, merit was to receive material reward in addition to honorable distinction, a motive long recognized as essential to the success of collective farming, but not very well applied until the advent of the political section.

The size of individual earnings now depended not only on how the collective worked as a whole but on the records of the brigades and the individual members. Under this system the earnings of the collective farm member are reckoned by the number of "labor days" to his credit at the end of the season. The labor day represents an amount of work performed and should not be confused with the working day; there may be 1.5, 2.0 or 3.0 labor days in one working day, according to the tasks accomplished. The number of labor days thus earned is determined by the energy and ability of the individual peasant. Where the nature of the work does not lend itself to such regulation, as in the case of a watchman, a day's work is rated as either more or less than a labor day, calculated on the basis of

the skill or exertion required. When the crop is brought in, the tax obligations to the government paid and grain for seeding purposes set aside, the net balance in cash and in kind is divided by the total number of labor days earned by the entire collective and thus the worth of each is calculated.

The work of State and collective farms in 1933 was far from ideal; yet two things have been accomplished—an immediate and substantial increase in agricultural produce and completion of the groundwork for the continued development of collective farming. The grain crop yield thus exceeds the previous year's total by 28 per cent. Enough collective farms have mastered the art of large-scale farming to serve as models for those that are still backward. The chemical factories are turning out a great deal more fertilizer than they did a year ago, and tractor production is now about 300 daily, and still going up. Furthermore, during the first seven months of 1933, 900,000 peasant households joined the collective farms. But for various restrictions the number would have been even greater.

Collective farming has weathered the storm, but further successes depend on light as well as on heavy industry. To make the collective farmer well-to-do more than cash or grain is required. The money that he realizes as his share of the collective revenue and from the sale of surplus produce

will be of little benefit unless he can make purchases with it. Today the Soviet citizen is the greatest spendthrift in the world, and the peasant, like the industrial worker, does not want to store up money for a rainy day. He wants shoes, clothing, frying pans, radios, and what not. And to the extent to which the government can provide him with these articles will he be interested in furthering and improving collectivization.

Last November a delegation from the Odessa Province visited Stalin. During a three-hour talk covering many subjects it came out that one of the delegates, Piyor Sidorovich Chernousov, and his family had earned 1,100 labor days. As the pro-rata return on his particular collective farm amounted to more than thirty-seven pounds of grain per labor day, his family had received about twenty tons of grain as well as nearly 3,000 rubles in cash. Citizen Chernousov and his fellow-delegates wanted some advice on how to spend all this wealth since light industry had so far failed to provide enough goods to buy. Stalin thereupon made the promise which was widely featured in the Soviet press—that “from now on production of consumers’ commodities will be doubled and perhaps trebled.” This is a promise that the Soviet Government will at all costs have to make good if the gains that have been registered in agriculture are to be held and expanded.

The Defense of Sterlingaria

By ALZADA COMSTOCK

[Miss Comstock, Professor of Economics at Mount Holyoke College, has been a frequent contributor on economic subjects to American periodicals.]

THE bewildered citizen of today's monetary world observes that in time of crisis nations forget past pride in their solid money and try to depress their own currencies in terms of others. Thus, their own manufacturers will be helped. Suppose that a Frenchman with 1,000 francs to spare in January, 1933, considered buying an American radio. With the franc at 4 cents he had only \$40, for which, including customs duties, he could not get a very good radio, and so he decided not to buy one. But this last Winter, with the dollar down and the franc worth 6 cents, he had \$60 and therefore could buy something better.

The British, with their long financial experience, had all this in mind when they went off gold and again when they established their exchange equalization fund. A large fund of this kind can go into the foreign exchange market like an individual, buy foreign currency, depress its own by selling it, and win the blessing of the country's exporters. If the fund converts its foreign currency into gold and sends the gold to the central bank, to the exporters' blessings are added those of bankers and financiers.

The exchange stabilization fund authorized by the gold bill recently enacted by Congress has so many superficial likenesses to the exchange account in Great Britain that the underlying differences in purpose and method are likely to be ignored. The

United States, like Great Britain, is temperamentally inclined to avoid the Continental and South American varieties of foreign exchange control, with their limitation and rationing of exchange, their fixed rates and their official exchange bureaus. Both countries favor less direct methods. Beyond this point, however, the resemblance grows fainter.

Although the purposes of the British fund have never been stated as frankly as custom in the United States demands, speeches of the Chancellor of the Exchequer and of supporters of the government in Parliament make it easy to discover the shifting aims of recent foreign exchange policy. In the Spring of 1932, when the establishment of the fund was announced, British policy apparently had two goals: To hold down the value of the pound in the foreign exchange markets—a demand of British exporters and of others interested in keeping intact the net of currencies tied to sterling; and to keep permanently within the country the refugee capital which was flowing from the United States and other uneasy nations.

Seven months earlier, in September, 1931, Great Britain had left the gold standard. The immediate reasons for that step—the difficulties in obtaining repayment of German short-term loans and the exodus of capital from Great Britain—are familiar matters of depression history. Soon, however, these factors were forgotten in the effort to depress the pound for the

benefit of British trade. At the close of 1931 the sterling-dollar rate was \$3.39, a depreciation of approximately one-third, which was apparently satisfactory to exporters. "As far as British trade is concerned," said Reginald McKenna, chairman of the Midland Bank, at the stockholders' annual meeting in January, 1932, "the outlook is undoubtedly brighter now that we have established our independence of the continued decline in gold prices."

Early in 1932, however, the depreciated pound and its advantages were endangered. The pound was rising. Refugee capital was pouring in from the United States, where people were frightened by the prolonged crisis and by the number of bank failures. French investors were transferring funds from New York to London. Finally, the Bank of England was obliged to sell sterling and buy foreign exchange in order to check the rise of the pound. By the beginning of April, 1932, the pound had risen to \$3.80. Obviously something more drastic must be done. And so the announcement by Neville Chamberlain, Chancellor of the Exchequer, in his budget speech of April 19, 1932, of the creation of a fund to operate on the foreign exchanges came as no surprise to the initiated. "It is essential for us to hold adequate reserves of gold and foreign exchanges," he said, "in order that we may meet any sudden withdrawal of short-dated capital and check and repel these speculative movements."

Throughout the debate on the equalization fund three recurring themes were heard—the trade advantage of a well-depreciated pound, the difficulty of keeping the sterling area ("Sterlingaria," as irreverent Americans have called it) in line if the pound should rise, and the desirability

of retaining in Great Britain the foreign money which was then flowing in. Sir Robert Horne proposed on April 20 a price rise which must have greatly heartened one of the current American monetary schools, although the United States has more modest world ambitions than he described. Sir Robert suggested \$3.60 as the rate which would perhaps bring prices to the 1928 level. Such a price rise, he continued, "would extend to the whole area which is now trading upon sterling. * * * You would have purchases from all parts of the world within the sterling area, and accordingly you would exercise at once a wide influence over more than half the world."

Such appeals to patriotic and business sentiment made it a foregone conclusion that the fund would be approved. The bill (Clause 21 of the Finance Bill for 1932-33) contained only a few words of instruction: "The Treasury may cause any funds in the account to be invested in securities or in the purchase of gold in such manner as they think best adapted for checking undue fluctuations in the value of sterling." The government insisted on complete secrecy of operation and, despite opposition, won its point. The account began its official life on July 1, 1932, with assets of £150,000,000 obtained through an increase in the floating debt, and £25,000,000 which was transferred from the now defunct dollar-exchange fund.

Action was necessary while the finance bill was making its way through Parliament. Fortunately for the prospects of a depressed pound, the mere announcement of the proposal for an exchange fund acted as a deterrent to speculative buying of the pound against a rise. The sterling-dollar rate soon dropped below \$3.80. In May and June, 1932, according to the *London Economist* of Sept. 24, 1932, the

pound-dollar rate was pegged at just under \$3.70. At this time Sir E. Hilton Young, Minister of Health, speaking for the government, described the purpose of the fund to a critical House of Commons. In view of the confusion of contradictory statements which have since been made, it is well to take note of his statement on May 25, 1932: "The purpose of the fund at the present time is to prevent a sharp rise. As long as we do that and keep sterling down to its present level, the result is to draw gold out of its hoards all over the world."

These events and their explanations, as well as the later work of the fund, render puzzling some of the recent British comments on American currency policy, such as that in the "City Notes" of the *London Times* on Nov. 11, 1933: "America is the first to make currency depreciation a deliberate policy."

Little is known of the precise activities of the British exchange equalization fund between the date of its establishment on July 1, 1932, and its spectacular dollar purchases in the early months of 1933. Month by month the pound continued to fall, however, until it reached the unprecedentedly low point of \$3.145 on Nov. 29. All sorts of rumors were in the air at the time. According to some—later proved to be false—the exchange fund had become bankrupt. According to others, the fund was selling the pound short and making money hand over fist. Still a third suggested that the decline in the pound was engineered to convince the United States that the war-debt payment, due in December, 1932, was practically impossible, although at the same time larger sums were being quietly transferred abroad to pay off the privately held 5 per cent war loan which was converted or (optionally) paid in that year.

The exercise of the exchange equalization fund in these first months was only a preliminary workout. Its real achievements were just around the corner. As soon as the December, 1932, payment to the United States was over, the fund began a persistent campaign to hold down sterling by selling pounds for dollars, demanding gold for the dollars, and selling the gold to the Bank of England. By the middle of January, 1933, a third of the gold paid to the United States in December had returned to London. By the middle of April three times as much foreign gold as had been paid to the United States in December had been sent to the vaults of the Bank of England. Further sums lay earmarked for Great Britain at the Federal Reserve Bank of New York, and still more foreign exchange remained unredeemed in the possession of the exchange equalization fund. Then, suddenly, the American gold embargo was declared. The wheels of this particular piece of foreign exchange machinery stopped turning. The gold drain was stopped.

This most spectacular of recent gold movements was achieved at a time when the British exchange equalization fund and the Bank of England had every advantage. Refugee capital from the United States, of which so much had been heard in the House of Commons in the preceding Spring, was now leaving the United States for London with even greater rapidity. The banking situation in the United States was approaching the catastrophe of March, 1933, and there was no sign of improvement in American economic or financial affairs. The British exchange fund could easily find all the dollar exchange it wished to buy. It could keep on buying as long as its resources held out; and they, being managed with consum-

mate skill, were holding out like the widow's cruse. The dollar exchange purchased could be converted into gold as long as the United States permitted gold to be exported. Here is to be found, of course, a practical and immediate reason for the insistence of British financial circles that it was best for the world that the United States remain on the gold standard.

The way in which the British exchange equalization fund operates against a gold country is as follows: The fund buys foreign exchange through a British bank. In order to supply itself with money for the purpose, it usually sells to the Bank of England some of the treasury bills with which it has been supplied by a generous government. The fund then pays the commercial bank with a check on the Bank of England.

Now that the foreign exchange is in its possession, the fund can either hold it, sell it or convert it into gold. The wall of secrecy which surrounds the fund prevents the public from knowing the methods used. It is believed, however, that the fund has made haste to convert most of its foreign exchange into gold and to sell the gold to the Bank of England. There is always the danger that any one of the few remaining gold countries may leave the gold standard, in which case foreign exchange is merely foreign exchange, rather than a potential gold reserve for the central bank. Thus the double purpose of depressing sterling on the foreign exchanges and the improvement of the Bank of England's gold reserve is accomplished.

At this point there appears one of the major mysteries of the ever-mysterious exchange equalization fund. The Bank of England, by the terms of the Finance Act of 1932, buys gold at par. The exchange fund, which has

had to pay for the metal in depreciated sterling at a considerably higher figure, loses on each transaction; and the greater its success in depreciating sterling on the foreign exchange, the more it loses. Yet somehow, nobody knows how, it keeps going. To be sure, the fund was hurriedly granted £200,000,000 more as soon as the United States went off the gold standard. Yet it is very puzzling that when the Chancellor of the Exchequer was pestered on this matter by inquisitive members of the House of Commons in the Spring of 1933 he insisted that "there has not been any loss on the account at all" and "the balance is on the right side."

If the fund has not lost money (and later information concerning its use of grants through the floating debt indicates that it is very far from destitution) we can come to only one conclusion—that the fund is a skillful operator on the foreign exchanges. The London *Economist* apparently drew that inference, for in its banking supplement of May 13, 1933, it remarked that the fund "was always liable to turn around without warning, and its operations were deliberately made incalculable from one minute to the next."

The year 1933 continued to be crowded with monetary crises, even after the American gold embargo stopped the British fund's efforts to raise the value of the dollar on the exchanges and to draw gold from New York. It was still possible to depress the pound and raise the dollar by foreign exchange purchases, but the heart was gone out of the adventure. Furthermore, the then modest resources of the fund were rather small for such operations. So the fund apparently desisted at once. In the two days after the suspension of the gold standard by the United States ster-

ling rose from \$3.49 to \$3.85. The increase in the gold supply of the Bank of England, which had been about £20,000,000 a month, slowed down almost to a standstill. The "highest gold reserve in the history of the Bank of England" — £187,000,000 in April, 1933—was to rise by only about £5,000,000 more during the rest of the year.

British financial experts, whether public or private, are not easily disheartened. On May 4, 1933, the Chancellor of the Exchequer asked the House of Commons for £200,000,000 more for the exchange fund. The amount was granted without serious objection. It was at this time that a divergence appeared between the official definition and the popular understanding of the purpose of the fund. In the discussion on May 4, and again and again since, the government has maintained that the fund is intended merely to "iron out minor fluctuations in the exchange value of sterling." Furthermore, the Chancellor of the Exchequer insisted, in asking for the additional grant, that it had "nothing whatever to do with the circumstance that America had gone off gold." Critics and the financial press, however, assumed other purposes of the exchange operations. David Mason (Edinburgh, Liberal) asked in the House on May 4: "What is the policy of the Chancellor of the Exchequer? * * * It is a sort of dole, a supplement, to the general trade of the country. In order to keep the exchange low and stimulate exports he is continually borrowing."

In the same debate Mr. Boothby (Aberdeen, Conservative) observed that the Chancellor of the Exchequer would be "well advised not to pursue the will-of-the-wisp of gambling in foreign exchanges in order to keep

sterling at an artificially low level." Sir A. M. Samuel (Farnham, Conservative), also in the debate of May 4, assumed similar purposes of the fund while making some not very respectful allusions to the financial skill of the United States: "We shall have a clash of currency aims between the United States and ourselves if they put up a fund on the same lines as this fund. * * * The United States are mere children in these exchange matters. * * * We shall, 'pull devil, pull baker', be trying, with the aid of our exchange fund, to keep the dollar up, and they, with their fund, will be trying to keep the dollar down."

Fortified with new resources, the British fund turned its attention to the most important country still on the gold standard, France. The pound-franc rate was held down to approximately 86 francs until the World Economic Conference opened in London in June. The value of the franc was further supported by a short-term loan of £30,000,000.

Once again the comment in London financial circles indicates that the fund is believed to act only to maintain a long-term depreciation of the pound. "Support from the British exchange account caused the franc to strengthen," said *The Economist* on Jan. 13, 1934, in reviewing the foreign exchanges for the year 1933. "Further support was forthcoming in May in the form of the French Treasury's sterling credit of £30,000,000." *The Statist* of May 6 referred to "energetic action on the part of the Bank of England to keep sterling down on Paris."

The resentment felt in Great Britain at the failure of the United States to agree to stabilize at approximately \$4 at the time of the Economic Conference in London is wholly understandable. "We would rather see the

dollar about \$3.40 than at \$4.40," Sir A. M. Samuel had remarked in the House of Commons. "On the other hand the Americans would, I assume, rather see the dollar at \$4.40 than at \$3.40 to the pound. It would help the export trade." The American departure from gold had been a severe blow from which the exchange equalization fund was never wholly to recover. The only remaining hope for a relatively low pound and a corresponding advantage in world markets lay in a speedy agreement with the United States, before the depreciation of the dollar should gather momentum. When President Roosevelt's letter of July 3 spoke for the "mere children in these exchange matters" as not yet willing to stabilize, British monetary policy received a severe blow.

During August and September, 1933, the fund was apparently not very active. In October, however, the question of supporting the French franc again became acute. The franc was falling and the pound was rising. Budget delays and other financial difficulties in France were weakening confidence. Money was being transferred from Paris to London. In this situation, with a rising pound and a new influx of refugee capital from abroad, the British exchange fund faced the same task which it had performed so successfully with respect to the United States when that country was still on the gold standard. France now remained on the gold standard, and the fund at once went into action. It made repeated purchases of French exchange, and in November, 1933, the Bank of France lost more than 3,000,000,000 francs in gold. At the end of the year the French financial situation temporarily improved; the franc rose of its own accord, so to speak, and the British fund no longer had to sell sterling against francs.

Throughout this campaign there is to be found a tendency of financial opinion to ignore the British official version of the purposes of the exchange fund and to assume a permanent and forceful intention to depress sterling. As the year 1933 progressed, and foreign countries became increasingly aware of the work of the British fund, comment almost vanished from the British press. Nevertheless a few bare statements of fact may be found for the Autumn months of 1933. "The control intervened throughout the week to limit the rise in the pound, which, if overaccentuated, would be contrary to the interests of British trade," runs a financial note in the *London Times* of Nov. 11, 1933. "A rise in the London-Paris rate brought a resumption of control operations, as a result of which the rate fell again," said the same paper four days later.

The Economist is apparently divided within itself. In its review of the foreign exchanges in 1933, it observes: "Frequent purchases of francs and gold by the British exchange account were needed to support the franc, and during November alone the Banque de France lost 3,375,000,000 francs in gold. Fortunately the passing of the budget by the Chautemps government in early December brought relief. The gold outflow ceased, British support became unnecessary, and the franc closed for the year at Frs. 83.5." In that same month of November, however, *The Economist* had remarked that "we hope that the British authorities will not deviate from their previous policy of allowing the exchange value of the pound to be the free resultant of economic forces and not the plaything of *Machtpolitik*." Considering the obscurity of the latter comment, it is not surprising that Englishmen as well as foreigners are rarely clear about the implications of

the work of the British exchange equalization fund.

The gold policy of the British exchange fund is even less well understood than its foreign exchange operations. Apparently some purchases have been made. Mocatta & Goldsmid, one of the four firms of bullion brokers operating in the London gold market, maintain in their annual report for 1933 that the influence of the exchange equalization fund in connection with the year's gold movements must not be underestimated. No announcement is made of its dealings in either gold or exchange, but in so far as it controls the movements of exchange, it controls the price of gold. For the year 1933 the British surplus of gold imports was £191,000,000, of which the Bank of England bought £106,000,000. This leaves £85,000,000 either in the hands of foreign depositors or held by the exchange equalization fund.

Some of the pitfalls of policy and opinion which beset an American exchange stabilization fund may be discovered in the history of the British account. First of all, it is necessary to distinguish between operations intended to depress the home currency on the foreign exchanges which, if successful, immediately influence the rate and benefit home exporters, and the purchase of gold which—with all due respect to Professor Warren and the Washington advisers of late 1933

—has a more remote connection with exporters' prices.

In the second place, it must be understood that such a fund can operate simply and effectively only against a country which is willing to export gold. Otherwise fund purchases of exchange degenerate into a fight between official speculators, with the battle not to the richest but to the most skillful and experienced. In the third place, refugee capital means little to the ordinary American, although in these last years it has been flowing in and out of the country with every changing storm signal. Since the habit of analyzing the exports and imports of capital is not yet well developed, it is unlikely that an American stabilization fund will be as well equipped to control capital movements as the British fund has been. Finally, the United States has no definite "dollar area" comparable to "Sterling-area" which must be kept in line in order that a definitely planned foreign trade may not be disturbed.

The problems which face an American stabilization fund are therefore more vague, point for point, than those which have been met by the British fund. The successful operation of the device depends upon the clear recognition by the management of the individual characteristics of American economy and of the relative influence of the factors which determine the level of the international exchanges.

Joyce and the New Irish Writers

By ERNEST BOYD

[Mr. Boyd is an Irishman who, after some years in the British consular service, resigned and settled in New York to pursue a career in literary criticism. He is the author of *Ireland's Literary Renaissance* and an associate member of the Irish Academy of Letters.]

TO many people the recent removal of the censorship ban on James Joyce's *Ulysses* will seem to be the most important event in the history of contemporary Anglo-Irish literature. First published serially—until it was suppressed—in the *Little Review* of New York, then issued in Paris for limited circulation in 1922, this book has aroused, under these restricted conditions, more comment and controversy than the work of any modern Irish writer, with the possible exception of J. M. Synge's comedy, *The Playboy of the Western World*. Officially banned during all these years from both England and America, *Ulysses* has been as widely read and discussed in these two countries as if it had been on sale in every book shop. Now that it is available in its complete unexpurgated form (New York: Random House, \$3.50), it is very natural that one should speculate on its reception at the hands of the general public.

Outside Ireland itself, this quintessentially Irish and local study of Dublin life has evoked somewhat extravagant enthusiasm and highly exaggerated claims for its importance. The distinguished French critic, novelist and translator, Valéry Larbaud of the *Nouvelle Revue Française*, pitched the note when he declared that, with *Ulysses*, Ireland had made

her re-entry into European literature. It is true, Mr. Joyce has made a daring and often valuable technical experiment, breaking new ground in English for the development of narrative prose, although the extension of the method, as exemplified in the published portions of *Work in Progress*, may well give his admirers pause. But the "European" interest of the work must of necessity be limited to its form, for its content is so local and intrinsically insignificant that few who are unfamiliar with the city of Dublin thirty years ago can possibly grasp its allusions and enter into its spirit.

Essentially *Ulysses* is a continuation of the studies of certain Dublin types first adumbrated in the superb volume of short stories, *Dubliners*, and in that fine novel, *A Portrait of the Artist as a Young Man*, neither of which excited anything like the furore in esoteric circles which greeted *Ulysses*. Much has been written about the symbolic intention of this work, of its relation to Homer's *Odyssey*, to which the plan of the three first and last chapters, with the twelve cantos of the adventures of Ulysses in the middle, is supposed to correspond. Irish criticism, on the other hand, is more impressed by its simple realism, photographic in detail and documentation, while admitting the power of Joyce's bewildering juxtaposition of the real and the imaginary, the commonplace and the fantastic. He is the first, and perhaps the last, Irish Expressionist, showing

a certain kinship with the Germans Walter Hasenclever and Georg Kaiser.

To claim for this book a European significance denied to W. B. Yeats, J. M. Synge or James Stephens is to ignore its genesis in favor of mere technique, and to invest its content with a mysterious import which the actuality of the references would seem to deny. James Joyce is endowed with the wonderful, fantastic imagination which conceived the fifteenth chapter of *Ulysses*, a vision of a Dublin Brocken, whose scene is the sordid underworld of that city. But he also has the defects and qualities of the French Naturalists of the Zola school, which prompt him, for example, to catalogue all the various street-car lines and to explain with the accuracy of a guide-book how the city obtains its water supply. His eroticism, too, so misleadingly advertised by the censors, will be revealed as oscillating between mocking Rabelaisian ribaldry and the contemptuous and disgusted horror of the body which makes Swift the authentic precursor of this typical expression of Irish asceticism. As Judge Woolsey says in the decision prefacing this edition, "In spite of its unusual frankness, I do not detect anywhere the leer of the sensualist." Thus, the hopes of a certain type of reader are fortunately doomed to disappointment.

Turning from James Joyce to the new group of writers who may be described as representing the Free State period in Anglo-Irish literature, the first fact that strikes one is the complete absence of his influence on these younger contemporaries. His own generation, and more naturally the older generation, developed along utterly different lines, so that there is little or nothing in common between him and either Yeats, AE (George Russell), Synge and Lady

Gregory, or Padraic Colum, James Stephens and Lennox Robinson. So far as Joyce has influenced the writers of today, they must be sought in England or America. In Ireland his influence has been nil. Although his work is saturated with the atmosphere of his native country, and his unique theme has been himself and his native city, he has been a lifelong exile, and has very deliberately and pointedly held aloof from all those who contributed to that remarkable flowering of Irish talent, the Irish literary renaissance.

His refusal to be elected a member of the Irish Academy of Letters, which was founded in 1932, very definitely emphasized his desire to be dissociated from the intellectual life of his country. Unlike most academies, this Irish institution is essentially un-academic, having been called into existence by circumstances which make it an important event in the history of Anglo-Irish letters. Its members and associate members, numbering some thirty, include every outstanding Irish writer of today, with a very few exceptions, such as James Joyce, Sean O'Casey and Douglas Hyde. The Academy was formed primarily as a protest and protection against the encroachments of censors and politicians upon the independence and integrity of Irish literature. The roll-call of names is one of which any other country but Ireland would be proud: G. B. Shaw, W. B. Yeats, Oliver Gogarty, Lennox Robinson, Frank O'Connor, Seumas O'Sullivan, F. R. Higgins, Forrest Reid, Peadar O'Donnell, Brinsley Macnamara, Francis Stuart, St. John Ervine, E. OE. Somerville, James Stephens, T. C. Murray, Austin Clarke, Seán O'Faoláin, Padraic Colum, Liam O'Flaherty. To which must be added the associate members, Eugene O'Neill, Helen Waddell, J. M. Hone, L.

A. G. Strong, John Eglinton, Walter Starkie, Stephen Gwynn, Shane Leslie and Lawrence of Arabia.

From the late Eighties until the signing of the treaty constituting the Irish Free State in 1921, Ireland had witnessed a progressive development of Anglo-Irish literature, which has given to the world some of the chief figures in the world of letters today. Dublin was for several decades a centre of intellectual excitement and creative activity, which culminated in 1916, the year of the Sinn Fein insurrection. Then politics held full sway and under the Free State Government literary activity declined, until the Irish writers found themselves in a position somewhat akin to that of the Russian intelligentsia under the Czars. Their czar is the censorship, which frowns upon all kinds of unorthodoxy, and derives its strength from the indifference of an apathetic peasant population to whatever indignities are imposed upon the free play of ideas. Irish literature has been driven out of Ireland, and depends exclusively on British and American support.

With the exception of Seumas O'Sullivan's quarterly *Dublin Magazine*, no periodical of any literary pretensions is published in Ireland. AE's *Irish Statesman* died, despite generous American help, simply because neither the government nor any group of individuals would subsidize it, and the general public ignored it. There is not a daily or weekly newspaper in the country above the level of the crudest provincial journalism. Once Irish authors were published in Ireland; today they are all on the lists of London publishers. To add intellectual insult to financial injury, the majority of the members of the academy have, at one time or another, been banned by the censorship. A list of the taboos of this

inconceivable organization would make the efforts of the Boston Watch and Ward Society seem broad-minded. In the space of one year I counted more than one hundred banned books, including such universally acceptable authors as Louis Bromfield, Heinrich Mann, H. G. Wells and John Dos Passos.

Thus it can be seen that a thoroughly unacademic motive prompted Bernard Shaw and W. B. Yeats to found the Irish Academy of Letters. The wisdom of this effort at cohesion was proved by the attitude of the Irish press. The usual gibes were heard to the effect that, because they do not write in Irish, the academicians are not Irish. Mr. de Valera's *Irish Press*, written almost exclusively in English, discovered that the authors were chosen "more as a result of their success in Britain and America than because of any reflection in their published works of the real Ireland." Opposition to the censorship, it was sapiently pointed out, is no proof of literary excellence. Contrary to the evidence, the fiction was again maintained that there are "a philosophy of life and conduct and an appreciation of moral value" in Ireland which mark that country off from the rest of this wicked world. So far, however, no list of Irish-speaking authors writing in their mother tongue has been produced to put to shame the renegades whom the academy and the rest of the world rightly regard as the not unworthy representatives of their country's intellectual activity.

When the politicians were appealing to the intellectuals of the world for help and sympathy, they received both. Now they are bent upon stifling all manifestations of freedom of thought. As the founders expressed it, "there is in Ireland an official censorship, possessing and actively exer-

cising powers of suppression which may at any moment confine an Irish author to the British and American markets; and therefore make it impossible for him to live by distinctive Irish literature."

We have now some conception of the altered conditions under which the Free State generation of Irish writers have been working, as compared with their predecessors. Like the latter, who once lived and worked in Ireland, they, too, are now scattered, and London is the exclusive scene of their publishing activities. They get their first hearing in American and English periodicals, and their champions are not Irish, but English critics. With the exception of F. R. Higgins, Austin Clarke and Sean O'Casey, they are all novelists, and for purposes of record I shall name them and their chief works: Seán O'Faoláin, author of a book of short stories, *Midsummer Night Madness*, and a novel *A Nest of Gentle Folk*; Frank O'Connor, a volume of short stories entitled *Guests of the Nation*; Peadar O'Donnell, three novels published so far in America, *The Way It Was With Them*, *Adrigole* and *There Will be Fighting*; and Francis Stuart, *Pigeon Irish*, *The Coloured Dome*, *Try the Sky* and *Glory*, four novels published in America, in addition to an earlier novel and a volume of verse which are not available in this country. Liam O'Flaherty's chief works are: *Thy Neighbor's Wife*, *The Black Soul*, *The Informer*, *Mr. Gilhooley*, *The Assassin*, *The House of Gold* and *The Puritan*. All are members of the Irish Academy of Letters.

Those who are familiar with the Irish literary movement will at once be struck by the preponderance of fiction, as against poetry and drama in the two preceding generations, although the romances of Standish

O'Grady were the starting point of the literary renaissance fifty years ago. Had it not been for the essays of John Eglinton, the occasional prose pieces of AE and Yeats's two volumes of stories, one might have said that during the entire period from 1880 until the war, the art of prose had been largely neglected. John Eglinton, always, at best, an occasional writer, was for many years the only author of the revival who wished to be known solely as a prosaist. Even those who wrote fiction preferred the short story to the novel, and usually contrived some even more amorphous form of narrative, held together by a loose thread. Is *The Crock of Gold*, for example, strictly speaking, a novel? Or *The Charwoman's Daughter*, for that matter? It is narrative prose; that is all that can safely be said for either of these fine works.

Of novelists in the proper sense of the word there have been very few until recently, and they did not appear to be so intimately a part of the movement as the poets and dramatists. A great deal of Irish fiction has been frank pot-boiling, even by authors of some standing in other fields, and rightly finds no mention in any history of the Irish literary renaissance. The names of Emily Lawless, Jane Barlow and Shan F. Bullock, to mention but three of more serious purpose, do not shine with the same lustre as those of their contemporaries in poetry and drama. George Moore, of course, gave us *The Lake* and *The Untilled Field* as models of Irish fiction, but we had to wait for James Joyce and Brinsley Macnamara, before there was any evidence that the Irish novel might come into its own. Daniel Corkery, who declined membership in the academy because he holds that Irishmen should write in Irish, disproved his own dictum in

1917, when his *Threshold of Quiet* appeared, a beautiful piece of work which never received the widespread recognition it deserved.

Nowadays fiction is the chief medium of the new writers, while the theatre, once the all-absorbing focus of activity, can boast of only one first-rate newcomer, Sean O'Casey. Despite the acclaim with which the present company of Abbey Players was received in the United States during its last tour, nobody familiar with the traditions of the Irish National Theatre could do other than note with regret the decline in the quality of the acting and the extraordinary banality of the new plays, all of which might have been written twenty-five years ago. Significantly, the authentic survivors of the original Abbey Players could not elicit the same applause for their fine interpretations of *Juno and the Paycock* and *The Plough and the Stars*. Mr. O'Casey's latest play, *Within the Gates*, is English in characters and setting, and has likewise failed to recommend itself to a New York producer.

One point of similarity exists between the plays of Sean O'Casey and the stories of Liam O'Flaherty, Seán O'Faoláin, Frank O'Connor and Peadar O'Donnell. They are all the work of the disillusioned realists of the Black and Tan period. Some of the authors took an active part in the events which they portray. Sean O'Casey fought in the Sinn Féin rebellion of 1916, and Peadar O'Donnell was engaged against the Black and Tans and later, as an opponent of the treaty, he joined the Irish Republican Army in its struggle against the Free State forces, was imprisoned, escaped execution and finally jail. *There Will Be Fighting* pulsates with the realism of experience, just as *The Way It Was With Them* conveys the true note of

life on one of those primitive islands which recently received such adventitious attention, when the public whim seized upon Maurice O'Sullivan's *Twenty Years A-growing*, a similar record of the Great Blasket, as if O'Donnell and Synge had never written.

Liam O'Flaherty has much of the violence, cynicism and brutal sincerity of Sean O'Casey. His Ireland, like the slums of O'Casey's Dublin, is far removed from the mysticism, the leprechauns and the fairies of the traditional Celtic twilight. He is also the most prolific of this group. His first novel, *Thy Neighbour's Wife*, appeared in 1924, and since then he has given us six novels and five volumes of short stories. Like O'Donnell, he writes out of first-hand, active experience of the Irish war, and the very titles of his books are suggestive of the fierce power of their contents. *The Assassin* is a study of political assassination. *The Informer* invokes that term of greatest opprobrium in Ireland to depict the career of a spy in revolutionary circles. *The Puritan* is a savage indictment of the type, with special reference to the peculiar manifestations of puritanism in a country where it is strangely distorted into a form of patriotism. A greasy tragedy in mean streets, by the very simplicity of its elements, *Mr. Gilhooley* has a Russian quality, a quality which is elsewhere perceptible in Liam O'Flaherty's work.

Frank O'Connor's one book of stories, *Guests of the Nation*, at once revealed his quality, and in the title story he has compressed more than others require an entire novel to relate. The eternal conflict and misunderstanding between the English and the Irish, the radical differences in their ways of thinking and feeling are dramatically expressed in this account

of how some English soldiers who are being held as hostages, and have come to be the friends of their captors, having no political emotions whatever, are dismayed and horrified when they are cold-bloodedly shot in reprisals. They cannot fathom the minds of these Irishmen who, but a few hours before, were peacefully playing cards and arguing with them about matters of anything but life and death. Francis Stuart, on the other hand, differs from O'Connor and all the others by reason of a large degree of mystic fancy in his vague treatment of current conditions in Ireland. An aviator and a Republican, he is also a devoted student of St. John of the Cross. His scenes are laid anywhere between Dublin and China, as befits an airman, and he is the most disembodied exponent of the modern trends in Irish fiction. Born in Australia and educated at Rugby, he lacks that autochthonous quality which gives the work of his contemporaries its distinctly Irish flavor.

The vogue for realism, so long absent from Anglo-Irish literature, tends to incense those patriotic readers who, despite the horrible evidence of 1916 and 1918-21, wish to see Ireland in terms of Yeatsian poetry rather than the realities of war and civil war. Unfortunately, these men were witnesses of that whereof they speak, and they cannot be thrust aside as libelers of their country. Much that is sordid and ugly and cruel, much that is brutal and brutalizing in Irish life has at last found expression in a literature which, whether through accident or design, has heretofore concentrated

on what W. D. Howells, in a well-remembered phrase, called "the more smiling aspects" of existence. The difference between these authentic narratives, informed by a real understanding of Irish history and psychology, will be readily seen by a glance at the substitutes for the real thing now being offered.

Shake Hands With the Devil, by Rearden Conner, is a much touted example of how not to do it. Here the author merely strings together a series of violent and bloody incidents, all of which may be true to life, and presents them as a picture of the troubled years in Ireland. The inaccuracy of the local references and the impossibility of the dialect placed in the mouths of the characters are symbolic of the general distortion of the picture as a whole. These other writers do not idealize; they describe things as horrible as any in *Shake Hands With the Devil*, but absence of idealization does not mean distortion. It will be an ironical commentary on this change for the better in the direction of comprehending objectivity, if we are confronted by a spate of penny shockers, based on the calculation that Ireland provides good material for blood-and-thunder adventure stories. It does not, but it does present conditions unlike those obtaining elsewhere, and in this group of Free State authors it has found interpreters worthy of the best traditions of Ireland's literary renaissance. Despite the censorship and the dead hand of obscurantism, the creative vitality of Anglo-Irish literature has not been crushed.

Current History in Cartoons



A possible addition to the line
—New York Herald Tribune



Deep valleys make high mountains.
—Brooklyn Daily Eagle



The hand on the lid
—San Francisco Chronicle



All aboard for 1936
—St. Louis Star-Times



"O. K., he's the doctor"
—The Post-Standard, Syracuse



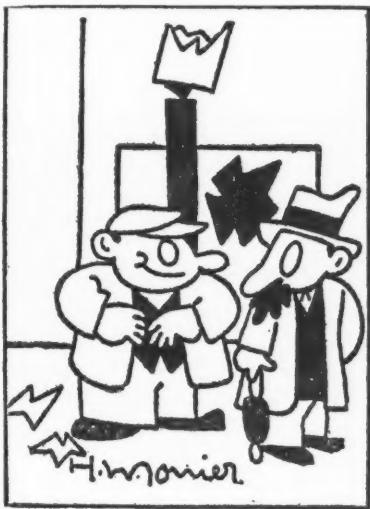
"Do your share"
—The Salt Lake Tribune



The ruins of the temple
—Public Ledger, Philadelphia



Awaiting further orders
—The Sun, Baltimore



Paris Riots—"A fine day today"
 "You are a royalist?"
 "No, a glazier"
 —Oeuvre, Paris



Marianne—"Pour l'amour de Mike! It's
 not a washerwoman you want, it's a
 steam laundry!"

—Glasgow Bulletin



Cuba
 —Chicago Daily News



Our Investors—"Please, Dr.
 Schacht, we are the Waits"
 Dr. Schacht—"Well, dot's O. K.
 by me, boys—just go on waiting"

—Daily Herald, London



"That's life! A year ago I was a general like you"

"Cheer up, my friend; a year ago I was a bootblack like you"

—Guerin Meschino, Milan



Coming events cast their shadows
before them

—De Groene Amsterdammer



The affair seems pretty well settled

—Public Ledger, Philadelphia

A Month's World History

Storm Signals in World Politics

By ALLAN NEVINS

Professor of American History, Columbia University

As for months past, the world during January showed two distinct centres of international tension. One was in the Far East. The increasing fear of an armed collision between Russia and Japan in what Senator Borah has just called "the sad bean fields of Manchukuo" was reflected in nervous speeches by both Japanese and Soviet Ministers, and in a steady succession of dispatches from Moscow, Tokyo and Washington. The whole world seems inclined at the moment to place a question mark upon Japan's intentions. The Dutch, with their huge, wealthy and ill-protected possessions in the East Indies, have manifested uneasiness over the the future course of the virile and decidedly aggressive empire to the north of their holdings. Australia and New Zealand are credibly reported to have felt relieved when Japan engaged herself in the Manchurian adventure. The United States has not yet approached a real solution of the problem of the Philippines, and is acutely conscious of Japanese power. But for the present Russia is the most fearful of a conflict, and responsible leaders have said so frankly in tones of grave warning.

The other area where storm signals fly is of course Central Europe and especially the Austro-German fron-

tier. The Austrian Nazis have steadily increased their activities. By acts of terrorism, by efforts—in part successful—to undermine the Heimwehr and win it to the support of Hitler, by unremitting propagandist pressure, they have tried to make headway against Chancellor Dollfuss. Throughout January the fear of a Nazi seizure of power in Vienna grew. It became evident that, unless the powers intervened vigorously, a crisis could not long be avoided. The equilibrium of Central Europe, like that of the Far East, seemed dangerously unstable.

These facts indicate clearly how real the danger of war in the world still is, how largely the globe is still ruled by force or the threat of force. The time is favorable to those who boldly propose violent means for selfish ends. Events during January have shown how deeply and inextricably the Western Powers are engrossed with internal problems. The United States has been intent upon devaluing the dollar and stabilizing its currency. Great Britain is laboring desperately to restore trade and a measure of prosperity. France, as a result of scandals resulting from governmental laxity, has been in the throes of a prolonged Cabinet crisis accompanied by rioting and other forms of internal dissension. Not one of these three na-

tions was in a position to act vigorously and decisively outside its own borders, even if it wished to do so.

An agreement upon the reduction of armaments has never been more needed by the world; but only snail-like progress has been made in the negotiations between Paris and Berlin. The great question as to when the Disarmament Conference may be reconvened is at this writing still unsettled. The steering committee of the conference was to meet in London not later than Feb. 12 to decide whether it was feasible for the general conference to recommence its work in the near future. Every one, including Arthur Henderson, agrees that it is useless to talk of drafting a general disarmament treaty until Germany and France have come to an accord on the basic questions. Is such an accord possible, and if so, when? These questions are still unanswered. Many observers feel more optimistic than during December. But negotiations between the French and Germans, with the British and Italians giving what aid they can, may be spun out for many weeks.

These negotiations have for the most part been carried on in the tradition of the old diplomacy; that is, they have been conducted chiefly by written notes, and they have ostensibly been secret. The notes have not been published. But little by little their contents have leaked out, so that the story of what has happened in Paris and Berlin is now fairly well known. The story of events during January may be rehearsed in a few paragraphs.

The French Foreign Minister, M. Paul-Boncour, on Dec. 31 sent Ambassador François-Poncet to Berlin with a note on disarmament. The next day the Ambassador obtained an audience with Chancellor Hitler and presented

the note. So far as information can be gleaned, it was conciliatory in tone, and made a favorable impression upon the German Government. Arthur Henderson told the press that he was pleased with its general character. Apparently it was vague, perhaps intentionally, on numerous points. But it is understood that France proposed to reduce her air force immediately by one-half; promised that she would gradually lessen the number of her troops, and gradually discard weapons of offense; and offered to accept the Franco-German pact of non-aggression previously suggested by Hitler. Moreover, Paris declared it would consent to an increase of the Reichswehr to 200,000 men, enlisted for short terms, if the Reich would agree to an immediate supervision of armaments. Mr. Henderson stated that if the German reply were in any way similar in tone, prospects for an eventual agreement would seem bright.

After studying the French note for nearly three weeks, the German Government delivered its reply in Paris on Jan. 20. Again the tone of the communication was said to be reasonable and conciliatory. But its contents, which are less fully known than those of the French note, are believed to mark little advance over the position which has existed since last October. The German Government is understood to demand a force of 300,000 regulars, with a defensive equipment equal to that of the French troops. In support of this claim, it points to the large colonial forces possessed by France. Moreover, the German Government declares that it cannot regard the Storm Troopers and other semi-military formations as soldiers, though it will consent to their limitation and control if similar bodies in other countries are given the same treatment. As for aviation, the Ger-

man Government is unwilling to accept an unequal status. French reduction by one-half would still leave Germany hopelessly inferior, and the Reich demands an air strength equal to that of France. Finally, Berlin asks that France and other powers begin their disarmament at once, without any "probationary period." Any such period, it asserts, is a discrimination against Germany.

The total result of the exchange of notes, therefore, was to leave essentially the same chasm as before between German demands and French refusals. The same vital question—whether Germany should at once, or only after meeting certain conditions, be allowed to have air forces, tanks and artillery of moderate calibre—remained at issue. If negotiations were to break down at this point the outlook would be serious. But the conciliatory tone of the notes indicated that they would not break down. Europe, in fact, cannot afford such a breakdown.

Realizing this, Great Britain and Italy on Jan. 29 simultaneously intervened. Sir John Simon and Mussolini had held conversations in Italy without much visible result early in the month (Jan. 3 and 4). But on Jan. 29, within three hours of each other, the British Government published a memorandum and the Italian Government an "eight-point program." The Italian document, which appeared first, was the more ambitious and the more definite. Mussolini flatly declared that the German demand for an army of 300,000 men should be accepted. He proposed that all other nations limit their military expenditures and armaments to the existing levels. He would apply his Four-Power Pact. He would have Germany rejoin the League of Nations, and re-enter the Disarmament Conference at Ge-

neva. Chemical warfare should be abolished, and the bombardment of civil populations stringently forbidden. Mussolini, it is important to note, declared that Germany's claim to equal rights had undeniable justice, and that Chancellor Hitler's declaration of peaceable intentions was worthy of full faith.

The British Government also declared that Germany must return to the League of Nations and the Disarmament Conference. It expressed the opinion that 200,000 troops are enough; but asserted that the actual number is less important than the principle of parity for France, Germany, Italy and Poland. Germany should be allowed bigger mobile guns, and tanks weighing not more than six tons, the other powers agreeing to the gradual destruction of all tanks of more than sixteen tons. In order to reassure France, London proposed a clause in the arms convention by which, if any nation were found to have violated its terms, the other powers should consult upon means of "restoring the situation." This clause, stated the British Government, would, when taken together with Hitler's proposal for pacts of non-aggression, "present a sum total of security worthy of general acceptance."

Thus the situation stood in the first week of February. That week ended with the German Government studying the British and Italian proposals and spokesmen for France declaring that the next move is for Germany to make. Hope for a solution is still widely held. Those who are discouraged point to the fact that the Disarmament Conference has now entered its third year. But the optimists can argue that the course of events offers a parallel to negotiations during the Rhineland and reparations controver-

sies. Then also we saw several nations, France at their head, presenting the most stubborn resistance to inexorable facts—a resistance which finally gave way to reluctant acceptance of the inevitable.

There is no question whatever that the unequal status of Germany will not endure much longer. Either the Reich will arm or other powers must disarm. If Germany cannot arm openly, she will arm—indeed, is already doing so—secretly. The chief point of difference is that France, while accusing Germany of secret recourse to such weapons as tanks, airplanes and artillery, would give her the formal right to them only after a fixed period of time, while Germany demands them at once. Great Britain and Italy regard the “probationary period” as dead. The essential question would seem to be just when and how France also will reconcile herself to that fact.

GERMAN DEBT PAYMENTS

President Roosevelt on Jan. 23 unexpectedly summoned the German Ambassador, Dr. Hans Luther, to the White House and delivered a demand that the private American creditors of Germany be given the same treatment as Swiss or Dutch creditors. This demand was forcibly stated. Dr. Luther showed visible disturbance afterward and lost no time in communicating with Berlin by telephone. Already representatives of American, British and Swiss creditors had reached Berlin for a conference on the partial German transfer moratorium. The Americans were Dr. Laird Bell, vice president of the Foreign Bondholders Protective Council and a Harvard classmate of President Roosevelt, and John Foster Dulles, a New York attorney. When the conference opened on Jan. 25 the Americans and Britons were astonished to learn that Dr.

Hjalmar Schacht, head of the Reichsbank and principal German negotiator, had been “called to Silesia.” However, discussion began. It quickly developed that the Americans and British, with the moral backing of the absent Swedes, stood together against the Germans and the Swiss, who had the moral backing of the absent Dutch.

The grievances of the Anglo-Saxon creditors have already been outlined in these pages. Dr. Schacht had twice arbitrarily cut the interest on German medium-term and long-term bonds. For the last half of 1933 he had decreed that half the interest to American and British holders should be paid in cash and half in scrip, the scrip being redeemable in cash at half its face value and the creditors thus getting 75 per cent of the interest due. For the first half of 1934 he had decreed that creditors should get only 30 per cent in cash and 70 per cent in scrip. This would yield approximately 65 per cent of the interest due. But by a special arrangement, the Swiss and Dutch creditors were given preferential treatment, receiving a 100 per cent payment in return for the purchase by their nations of an extra quota of German exports. The Americans, British and Swedes objected that Dr. Schacht's cuts were excessive and unnecessary; likewise they protested against the favoritism shown to Switzerland and Holland. At the same time, the Americans pointed to clear evidence that Germany, having depreciated the market value of her bonds, was taking advantage of this depreciation to buy them in at bargain rates.

In the week following Jan. 25 the German debt problem was placed squarely before the world. At first progress was slow. But it shortly became evident that the Germans had been greatly influenced by President

Roosevelt's expressed readiness to undertake German-American trade negotiations in an effort to find means of redressing the trade balance between the two nations, now heavily in favor of the United States. Both the Economic Ministry and the Foreign Office, under pressure from German exporters, were eager to take advantage of this offer. Their representatives in the conference, Dr. Wilhelm Posse and Dr. Ritter, therefore wished to placate the Americans. Dr. Schacht appeared personally before the conference on Jan. 29 and declared that he was unwilling to budge. As the watchdog of German finance, he specializes in such refusals. The cuts, he insisted, were made only after careful study of the foreign-exchange situation showed them absolutely necessary. But the other German negotiators took a different view; they declared that something must be done to satisfy both the Americans and British; and on Jan. 31 a decision was reached.

This decision was ingenious. It was arranged that Germany should continue to pay only 30 per cent of the interest in cash, as Dr. Schacht had planned, but that the additional scrip payment should be redeemed at 67 per cent instead of 50 per cent of its face value. This meant a decided gain for bondholders. Instead of receiving 65 per cent of the face value of their coupons, they will receive a little more than 75 per cent. This arrangement has proved generally satisfactory to American and British bondholders, and will remain in force until July 1, when the moratorium expires. Two groups of bonds, the Dawes Plan 7s and Young Plan 5½s, are not included in the scrip scheme since interest on them is being paid in full in cash.

One or two large results of the debt conference must be viewed with special gratification. The creditors made

it clear that they will not accept "unilateral" decrees by Germany which arbitrarily fix interest rates, but that agreements must be reached by negotiations. It has been shown that the stubborn-minded Dr. Schacht is not sole master of the situation, but can be overruled by other German officials. Finally, the way is now apparently open for a sensible modification of German-American trade relations, lowering part of the intolerably high American tariff wall. It should be added that on Feb. 5 negotiations began in Berlin for the prolongation of the existing credit arrangement covering the short-term commercial and bank debts of Germany. A German committee under Dr. Schacht on that date met representatives of creditor interests in ten other nations, including the United States. Since the existing agreement was made a year ago, the Germans have reduced their short-term indebtedness by about 900,000,000 marks.

Meanwhile, clear evidences are forthcoming of industrial recovery throughout most of the world. The latest issue of the monthly bulletin of economic statistics published by the League of Nations shows (Jan. 25) that European and American industrial production continues to rise. Gains are reported for November, 1933, in a long list of countries. General indices, with 100 representing the 1928 average, show that industrial production in November stood in Japan at 138; in Sweden at 95; in England at 92; in France at 84; in Canada and Germany at 71, and in the United States at 66. France and Belgium alone show a recent recession, and in Sweden, the United States, Canada and Germany the gain has been notable. These brightening economic skies should have their effect on the weather of international politics.

The Devaluation of the Dollar

By D. W. ELLSWORTH

Editor, The Annalist

THE approval by President Roosevelt on Jan. 30 of the Gold Reserve Act of 1934 and his proclamation of Jan. 31 completed, for the time being at least, the process of lowering the gold value of the dollar. This began last April when the Secretary of the Treasury, acting under the emergency powers granted to him by Congress, refused to license the export of gold when the position of dollar exchange in relation to European gold currencies made such transactions profitable. Notice was thus served on the world that the gold standard was definitely suspended by the United States, and full confirmation took place on June 5 when Congress adopted a resolution repealing the gold clause in Federal and private contracts.

The Gold Reserve Act in its main provisions does the following things:

1. Vests in the United States Government title to all gold coin and bullion held by the Federal Reserve Banks.

2. Amends the Federal Reserve Act to provide that Federal Reserve notes shall be payable in lawful money instead of in gold.

3. Substitutes gold certificates for gold in the legal reserve requirements.

4. Provides that no gold coins shall be paid out or delivered by the United States, but that all gold coin shall be withdrawn from circulation and, with other gold owned by the United States, shall be formed into bars of such

weights and fineness as the Secretary of the Treasury may direct.

5. Provides that any devaluation "profit" shall go to the Treasury, and out of this "profit" sets up a fund of \$2,000,000,000 to enable the Secretary of the Treasury to deal in gold and foreign exchange and such other instruments of credit and securities as he may deem necessary for stabilizing the exchange value of the dollar.

6. Sets an upper limit of 60 per cent of its former value on the devalued dollar (the Thomas amendment placed 50 per cent as the lower limit) and fixes the life of the stabilization fund at two years, except as extended at the option of the President for one additional year.

The President's proclamation putting this act into effect established a gold bullion standard instead of the former unrestricted gold standard and defined the dollar as 15 5-21 grains of gold nine-tenths fine in place of the former content of 25.8 grains nine-tenths fine. This made the value of an ounce of gold in terms of American currency exactly \$35 and made the dollar worth 59.06 per cent of its former gold value.

Two reasons for this devaluation were given by the President. One was that "the foreign commerce of the United States was adversely affected by the depreciation in the currencies of other governments." It has long been contended by the advocates of devaluation and inflation that other countries, by allowing their currencies

to depreciate, have been able to increase their share of international commerce, and it is unquestionably true that in certain cases where there has been extreme inflation induced by rapid currency depreciation the result has been an increase in exports. All first-rate economists agree, however, that any stimulus to a country's export trade resulting from currency depreciation is temporary at best.

What really counts in considering a country's international trade is not whether its share of the total is increasing or decreasing but whether the total volume of trade is increasing or decreasing. The effect of currency dislocations is to produce widespread uncertainty over the future value of contracts and commitments and to bring about a general curtailment of international transactions.

When we examine the export figures for countries the currencies of which have depreciated in recent years, the advantages of currency depreciation are difficult if not impossible to discover. In 1931 Great Britain and a number of other countries were forced to suspend gold payments and their currencies depreciated. But in 1933 exports from Great Britain were only 64 per cent of the 1930 total and a comparison of exports from other countries with depreciated currencies show similar losses, which would appear even greater if measured in gold values.

Under present conditions there is less likelihood than ever that currency depreciation can stimulate an increase in exports, because in recent years import quotas have become of more importance in restricting international trade than have tariffs. Theoretically a currency can be depreciated sufficiently to overcome any tariff barrier temporarily, but no matter how far currency depreciation is carried it can

obviously have no effect in overcoming quotas and embargoes.

The second reason announced by the President for devaluing the dollar was that "an economic emergency requires an expansion of credit." Now an economic emergency sometimes requires a contraction of credit but seldom if ever an expansion except in the event of a sudden crisis, as in the stock market collapse in 1929. As matters stood at the end of 1933, the banks were in a position to finance a volume of commercial transactions far in excess of the volume of business in 1929, which was the most active year in the history of this country. Throughout the depression it has been demonstrated again and again that attempts to force bank credit into active use are futile. When confidence in the currency is finally restored and present obstacles to trade expansion, such as the Securities Act, are removed or modified, business will expand, and it will be found that credit facilities are ample even without the potentialities for additional expansion provided by the Gold Reserve Act.

It is something new in modern times for a government deliberately to depreciate the gold value of its own currency. It is something decidedly unorthodox for a country with a huge favorable balance of international payments to take such a step. By no process of logic nor in the light of fundamental economic principles nor by recourse to precedent can it be justified.

If the medium of exchange in the United States were gold coins in actual circulation there would be a tremendous uprising of the people against any attempt to reduce the gold content. But gold coins, largely because of their inconvenience, have long since passed out of general circulation and in their place we use

paper money and bank checks, the value of which has come to depend upon the confidence of the public in an adequate redemption reserve of actual metal held by banks and the Treasury. The effect of reducing the gold content of the dollar in the present instance is, therefore, not noticed by the public because prices of commodities are quoted in the circulating medium in general use. Only when the cost of living shows a decided increase in response to this modern method of currency manipulation will the general public begin to complain.

Some observers believe that the present reduction in the gold content of the dollar will have little, if any, effect on internal prices. But if that turns out to be the case, then there was no use in changing the gold content in the first instance. International commodities, such as rubber and tin, have already advanced sharply as a result of the depreciation in the value of the dollar in other countries, and the idea of the administration seems to be that this rise will gradually be translated into a corresponding rise in the price of raw materials. To insure such a rise, moreover, vast amounts are being borrowed by the government, mainly from the banks, and the proceeds distributed to the people in the form of wages for public and civil works projects and by means of farm bonuses.

When the new gold value of 59.06 cents went into effect the gold value of the dollar in terms of European gold currencies was about 61.3 cents. The French franc was quoted at 6.42 cents, as against a new parity of exchange, based on the relative gold content of the franc and the dollar, of 6.6334 cents. The immediate result was a scramble for gold on the Continent, because by exchanging francs for gold

at the Bank of France and by shipping the gold to this country people could realize a tremendous profit.

Only two things could happen in such circumstances. Either the Bank of France could refuse to allow the withdrawal of gold from its vaults, thereby departing from the gold standard, or it could permit a sudden huge withdrawal of the metal for shipment to the United States. Thus far (Feb. 9), despite domestic political disturbances, the French Government has been resolute in its determination to remain on the gold standard, although no government probably had a more reasonable excuse for departing from it. In consequence it was reported that within a week of the date of our dollar devaluation some \$75,000,000 in gold was on its way here from Europe, with additional consignments awaiting shipping facilities.

In placing a \$2,000,000,000 stabilization fund at the disposal of the Secretary of the Treasury the administration hopes, by buying gold abroad, plus the effect of private gold shipments, to force the external gold value of the dollar down to its present lawful value of 59.06 cents and to keep it there. Some observers feel that this is going to be a difficult task. If France and the other gold-standard countries permit the free purchase of gold both by private holders of French currency and exchange and by the Secretary of the Treasury through the purchase of franc exchange, the result will eventually be to force the franc into close proximity to its new parity of exchange with the dollar.

In addition, the Gold Reserve Act permits the stabilization fund to acquire United States Government securities, thus stripping the Federal Reserve Banks of all control of the money market and rendering our entire banking system subject to political control.

Congress Bows to the White House

By E. FRANCIS BROWN

THE Seventy-third Congress of the United States seems destined to go down in history as one of the most docile, one of the most amenable to Presidential dictation, ever assembled in the Capitol. This characterization has been borne out by the regular session no less than by the momentous special session of last year. Undercurrents of dissatisfaction could be detected, of course, and many members who maintained silence during the rapid passage of what would once have been regarded as highly debatable legislation undoubtedly had mental reservations regarding the bills presented for approval. Yet few spoke out, nor did many register dissent in the final voting. Seemingly politics has been adjourned.

In explanation there were many factors. The first in importance, and the most obvious, lay in the amazing popularity of President Roosevelt, made manifest in many ways, and not least in the nation-wide celebration of his birthday on Jan. 30. The festivities, to be sure, sought to benefit the Warm Springs Foundation; yet public response to the suggestion of a national birthday party indicated the affection with which Mr. Roosevelt was held by the great majority of the American people. This demonstration emphasized to Congressmen and Senators who must face the electorate next November that for the present it would not be wise to run counter to the President's policies and proposals.

But this was not the whole explanation. Democratic control in Con-

gress was very real, not only because of the party's numerical superiority but because of the Presidential leadership. Every suggestion of insurgency was quickly crushed. Moreover, the House on Jan. 11 adopted a special gag rule prohibiting the amendment of important sections of appropriation measures that may come before the lower body during the present session. Although the rule was passed by a margin of only 5 votes—197 to 192—and 84 Democrats were counted in the negative, nevertheless it did pass, registering an important victory for administration strategy.

The opening weeks of the Congressional session testified again to the demoralization of the Republican party. The voices of its members were seldom raised, and then but feebly, against the program of the Democratic government. To the public these protests sounded like nothing more than the querulous outcries of men who disliked what was being done but who had nothing better to offer. Nor was Republican unity noticeably strengthened by the speech of Ogden L. Mills, former Secretary of the Treasury, on Jan. 29, when he called for modification of "recent tariff practices" and for unemployment insurance, and attacked the Roosevelt administration's recovery policies.

THE DEVALUED DOLLAR

Only against such a background could one understand why it required but two weeks for the passage of the President's Monetary Bill. In a

special message to Congress on Jan. 15, sketching a permanent monetary policy, three points stood out: (1) The President would be empowered to revalue the gold dollar at not more than 60 and not less than 50 cents; (2) the government would take possession of all the gold in the country, including the \$3,600,000,000 owned by the Federal Reserve System, giving the Reserve Banks gold certificates in return; (3) the profit on the gold resulting from the devaluation of the dollar would be used to create a stabilization fund of \$2,000,000,000 to steady the dollar in international exchange and to support government bonds. The remainder of the profit would be used for recovery expenses.

The House of Representatives, by a vote of 360 to 40, passed the bill on Jan. 20 without amendment. As had been expected, the bill's course in the Senate was not so smooth, but despite considerable debate and attack, the bill was adopted by a vote of 66 to 23 in the Upper House on Jan. 27. All important amendments were defeated by the administration forces and the minor ones were accepted by the House without debate. Three days later the President signed the bill.

Immediate action resulted from the enactment of the Monetary Bill. President Roosevelt on Jan. 31 issued a proclamation reducing the gold content of the dollar from 25.8 grains to 15.5-21 grains, 9-10 fine, making the gold value of the dollar approximately 59.06 per cent of the value fixed by the act of 1900. At the same time the government set the price of gold at \$35 an ounce, took title to all gold held by the Federal Reserve Banks in return for gold certificates which would serve as currency reserves, created a \$2,000,000,000 stabilization fund and placed the United States on an international gold bullion standard. (For

a discussion of the foreign and domestic significance of the new monetary measures, see the article by D. W. Ellsworth on page 714).

RUBBER-STAMP LEGISLATORS

Although the actual legislative output of Congress during the first month of the session was not impressive, the measures passed received so little consideration from either house that observers could not avoid referring to the Congressional rubber stamp. Thus on Jan. 15 both the House and the Senate enacted a bill extending the life of the Reconstruction Finance Corporation until Feb. 1, 1935, and increasing its lending power by \$850,000,000. That the bill would be passed had never been denied, but that passage in the Senate would be unanimous and that in the House only one vote would be registered against it after two hours of debate appeared hardly credible. This was all the more strange since it had been expected that moves would be taken to amend the RFC act so as to permit loans to industries. Though Jesse H. Jones, chairman of the RFC, has been opposed to its lending money to industry, he did threaten on Feb. 5 that unless the banks provided credit for private enterprise "there can be but one alternative—government lending."

During January Congress passed with little debate a liquor tax bill levying \$2 a gallon on spirits and rates on wine ranging from 10 cents to \$2 a gallon. The Treasury estimated that \$500,000,000 would be realized annually from these taxes.

In the present Congress, as in previous ones, much of the work is concerned with the regular appropriation bills. The Independent Offices Bill, for example, passed the House on Jan. 12 after attempts to restore pay cuts for

Federal employes and benefits formerly enjoyed by the veterans had been defeated. But in the Senate amendments again were offered affecting the economies instituted last Summer, following the adoption of the Economy Bill. So menacing did the drive for restoration of veterans' benefits become that on Jan. 19 the President issued four executive orders liberalizing the regulations inaugurated last year. Under the new dispensation approximately \$21,000,000 would be distributed annually among about 228,000 veterans. Meanwhile, the Senate Appropriations Committee had approved an immediate restoration of one-third of the 15 per cent pay cut for Federal employes and another third on July 1. Ultimately, of course, administration pressure may prevent the adoption of any measure affecting the economies won last year.

Though President Roosevelt informed Congressional leaders early in the session that he desired the enactment of the appropriations bills without delay, at the end of the first month none had been passed by both houses. Pending in the House of Representatives were the Postoffice and Treasury Bill, carrying \$670,850,940 for the Postoffice and \$149,842,330 for the Treasury; the Interior Department Bill, carrying \$31,098,000—\$19,380,000 less than for the current fiscal year. Before the Senate, besides the Independent Offices Bill, were bills carrying \$84,170,577 for the State, Commerce, Justice and Labor Departments, as well as the Naval Appropriation Bill, carrying \$286,445,577.

The regular Naval Supply Bill provides for the maintenance of the present navy and the carrying forward of construction authorized or already under way. But, in addition to the supply bill, there was before Congress the Vinson Treaty Naval Bill,

providing for a five-year building program at an annual cost of about \$60,000,000 in order to replace obsolete ships and to bring the navy up to treaty limits. It must not be forgotten, however, that last Summer the navy obtained \$274,765,924 from the PWA for construction. Incorporated in Mr. Vinson's naval bill was provision for 1,184 naval aircraft, whose construction would coincide with that of the ships authorized by the bill.

TAX REVISION

To aid in the financing of the administration program as set forth in the President's budget message (see February CURRENT HISTORY, page 587), the House Ways and Means Committee was at work during January on a revision of the existing tax laws, particularly that on incomes. Should the committee's recommendations become law, a flat 4 per cent tax would be levied on all incomes; surtaxes would begin with 4 per cent on incomes above \$4,000, rising thereafter to 59 per cent on incomes above \$1,000,000. Other recommendations of the committee would further tend to tighten the existing law by stopping the loopholes disclosed during the investigations by the Senate Committee on Banking and Finance. A proposal that a sales tax be incorporated in the bill was buried by the House committee, but the committee did recommend some changes in postal rates and repeal of the tax on bank checks.

On Jan. 16, the House passed a bill providing for a Federal Farm Mortgage Corporation with a capital of \$200,000,000 subscribed by the Federal Government, with power to issue bonds for \$2,000,000,000. "Such bonds," the bill read, "shall be fully and unconditionally guaranteed both as to interest and principal by the

United States." Senate approval followed on Jan. 22.

CWA POLICY

The second bill related to something more controversial—the Civil Works Administration. It is too early to write a complete history of the CWA, but when the Federal Government established this agency it placed itself in the position of a man who has seized the tail of a bear—he dare not hold on, nor does he dare let go. Conceived as a means for immediately stimulating purchasing power at the same time that it decreased the burden of unemployment relief on States and municipalities, the CWA was originally hailed as a brilliant stroke. Within a few weeks 4,000,000 men and women were on payrolls of a sort. Those who had been receiving relief, now had more; those who had been sustaining themselves as best they could were once again at work. It seemed too good to be true; it was.

Probably any scheme of this nature, launched without proper safeguards, was bound to fall a prey to grafters. In any event that seems to have been the fate of the CWA. Fantastic stories of petty plunder at the expense of the jobless floated about until on Jan. 23 the Department of Justice, at the request of Harry L. Hopkins, head of the CWA, began investigations of the alleged graft. President Roosevelt told his press conference the following day that he had received many charges that CWA money had been diverted into political channels. Although disclosures were few, criminal prosecutions in six cases involving accusations of graft were ordered by the PWA on Jan. 30. On that date only three States—Maine, New Hampshire and Vermont—had escaped criticism for mishandling CWA funds.

Yet, graft or no graft, the CWA had

succeeded in bringing more substantial relief to the unemployed than they had previously known—a fact with political as well as social significance. When on Jan. 18 the CWA, faced with the exhaustion of its funds, ordered that the persons on its rolls be placed on a shorter working week, a great hue and cry arose, which did not die away when President Roosevelt declared that the CWA program would terminate on May 1. The President, however, did ask Congress to appropriate \$950,000,000 for relief purposes, \$450,000,000 of which would be devoted to continuing the CWA until the return of warm weather relieved the pressure on the unemployed. Although his request brought quick response from both the House and the Senate, Congress continued to be restless at the prospect of withdrawing the aid extended by this agency.

In many minds the fear persisted that discontinuance of the CWA would inevitably provoke disturbances in urban centres, in addition to increasing the burden of human misery. Some members of Congress asserted that recovery lay along the path traced by large-scale relief expenditures. Others knew that political advantage could be found in defending unemployment relief against the attacks of men who were more worried by the prospect of an unbalanced Federal budget and inflation than by possible riots of the jobless.

STOCK EXCHANGE REGULATION

The long-awaited move for regulation of stock and commodity exchanges occurred on Feb. 9 when President Roosevelt in a special message to Congress requested legislation "providing for the regulation by the Federal Government of the operations of the exchanges dealing in securities and commodities for the protection of

investors, for the safeguarding of values, and, so far as it may be possible, for the elimination of unnecessary, unwise and destructive speculation." Immediately afterward a drastic, far-reaching bill for regulation of stock exchanges was introduced in both houses of Congress, though it should not be ignored that the bill in its original form had not been given the administration's specific approval.

If enacted into law, the new bill would outlaw wash sales, matched orders, combinations or pools for affecting the price of securities, the spreading of rumors involving price changes on the exchanges, dissemination of misleading information concerning securities, payments by manipulators for the spreading of information favorable to them, the pegging of security prices unless the Federal Trade Commission is given full details, corners in securities, the use of options and trading against options. Purchases on margin and borrowing on securities would be strictly regulated, while, except under certain conditions, short sales or stop-loss orders would be prohibited. Violation of any provision would be punishable by a fine of not more than \$25,000 or ten years' imprisonment or both. If the violator were an exchange, a maximum fine of \$500,000 could be imposed. Administration of the law would rest with the Federal Trade Commission.

A companion measure to stock exchange regulation took shape in the Securities Act passed at the special Congressional session of last year. From the moment of its enactment this law has been under fire, ostensibly because financiers regarded it as so rigid that even legitimate corporate financing is shut off. As a result, there have been frequent rumors that the act would be revised, rumors as often denied. Congressional sentiment was

known to be opposed to revision, but at the beginning of February the administration was said to be leaning toward changes which would limit the liability of underwriters in damage suits. But on regulation of the exchanges and of security selling the legislators were in comparative agreement.

ST. LAWRENCE WATERWAY TREATY

Much more contentious was the St. Lawrence Waterway Treaty, which awaited Senate ratification. This treaty, negotiated during the Hoover administration, has President Roosevelt's outspoken support, which was expressed on Jan. 10 in a special message urging ratification. In Mr. Roosevelt's opinion, the power development contemplated by the project is no less important than the improved navigation facilities that once seemed to be the fundamental purpose of the treaty. Despite opposition, particularly by Senators from the Eastern seaboard, ratification before the end of the Congressional session appeared probable.

CRITICISM OF NRA

Because of the administration's control of Congress, less criticism of the NRA and the other emergency administrations has been heard in the halls of the Capitol than was anticipated. Senators Borah, Glass and Nye, however, have assailed the NRA codes as unfair to labor, the consumer and the small business man. Senator Nye asserted on Jan. 18, for example, that monopolists were the chief beneficiaries of the NRA. "If what seems to have been the policy of the NRA is continued," he said, "the plunderers may well adopt 'The Last Round-Up' as their theme song and trample under heel whatever remains of independent

business and make the consumer a mere slave to their interests."

Senator Nye's repeated attacks led to an announcement by General Johnson on Jan. 24 that a special board would be created in the NRA to hear complaints against the operation of industrial codes. Previously, President Roosevelt had issued an executive order permitting complainants against code operation to appeal to the Federal Trade Commission or to invoke the aid of the Department of Justice. Meanwhile, Congressional critics of the NRA were seeking to force an investigation of price-fixing in the codes now in effect. Outside Congress it was repeatedly charged that the codes were being violated in cases where violation suited the best interests of the business concerned.

Labor's complaints against the NRA were even louder than those reverberating through Congress. Collective bargaining, approved by the National Industrial Recovery Act, but not defined, has presented a source of trouble from the start. Does collective bargaining envisage the independent or the company union? Naturally, the American Federation of Labor opposes company unions, contending with a good deal of justification that under them collective bargaining is meaningless. On the other hand, employers contend—also with some justice—that there is nothing in the NIRA to suggest that a company union does not satisfy the requirement for recognition of collective bargaining. So far, statements by General Johnson and executive orders from the White House have failed to clarify the situation.

Furthermore, the National Labor Board and its regional boards, despite their solution of hundreds of labor disputes, have notably failed in instances where employers were strong

enough to offer real resistance to the board's suggestions. The case of the Weirton Steel Company remains conspicuous in this regard. (See February CURRENT HISTORY, page 585.) Following a visit to the White House on Jan. 30 of labor representatives from the Weirton works, President Roosevelt ordered that the company's employees be polled to see whether a new election for labor representatives was desired. The poll would be held under the supervision of the National Labor Board. The company immediately took steps to obtain an injunction to test the government's power to force an election without regard for the management's terms. But the Weirton case is only one of those that has dragged along for too many months to satisfy labor.

The public works program embodied in the NIRA has moved ahead to a point where, early in January, its original appropriation of \$3,300,000,000 had been exhausted. With funds allotted and contracts in the process of being let, the fillip to industry from PWA funds is certain to become increasingly apparent, until by late Spring or early Summer the peak is reached. Then we shall know whether the PWA has done anything to prime the pump of industry.

AID TO THE FARMERS

The Agricultural Adjustment Administration also has been the target for Congressional criticism. In reply Secretary Wallace on Jan. 18 outlined before the Senate Agriculture Committee the manifold activities of the AAA. He predicted that the farmers' income in 1934 would be increased \$2,000,000,000 as a result of the government's policies. Moreover, under plans already approved, \$761,000,000 will be turned over to the farmers during 1934 in the form of rental and benefit

payments. Throughout his testimony Mr. Wallace expressed optimism as to the outcome of the farm program, and asserted his belief that it has now been demonstrated that "farmers will cooperate in controlling their own production."

Wheat, cotton, corn and hogs have enjoyed the greatest prominence in the AAA activities; attempts are now being made to bring cattle within its scope by declaring them to be a basic commodity. Sugar is also to be included, as President Roosevelt in a special message on Feb. 8 urged that sugar be placed under the AAA in order that the industry might be rehabilitated, both at home and in Cuba.

Probably the most troublesome of all the many products and problems handled by the AAA are those of milk. Strikes have broken out in one milkshed after another as farmers have sought to obtain better prices for their product and to reduce the spread of the distributor. As all attempts to settle the question satisfactorily have failed, the AAA has adopted a new policy which Secretary Wallace set forth on Jan. 31. In outline the new policy involves fixing a price for the producer as high as is economically sound, leaving the price to the consumer to be fixed by competition. To enforce the payment of a fixed price, marketing agreements are being drawn up and all milk distributors are to be licensed by the AAA.

EMERGENCY LAW DECISION

The first Supreme Court decision on the constitutionality of the emergency legislation enacted by the States and the Federal Government was handed down on Jan. 8 when a Minnesota law for a moratorium on mortgage foreclosures was upheld. The majority opinion in this five-to-four decision

was written by Chief Justice Hughes, who maintained that an "emergency may furnish the occasion for the exercise of power." Discussing the question of contract—the crux of the case—the Chief Justice said: "Where in earlier days it was thought that only the concerns of individuals or classes were involved and that those of the State itself were touched only remotely, it has later been found that the fundamental interests of the State are directly affected, and that the question is no longer merely that of one party to a contract as against another, but of the use of reasonable means to safeguard the economic structure upon which the good of all depends." This decision, though dealing only with the Minnesota law, was generally regarded as indicating that the NIRA and other similar acts would be upheld whenever they should be brought before the court.

BUSINESS AND EMPLOYMENT

The administration program has gained supporters in and out of Congress as a result of the upturn in business. The evidences of revival may not stand too close examination, but they present a superficial appearance of better times. *The New York Times* index of business activity remained relatively stable during January, falling from 79.6 for the week ended Dec. 30 to 76.3 for the week ended Jan. 13; it then rose again to 77.2 for the week ended Jan. 27. *The Annalist* index of commodity prices advanced from 102.4 for the week ended Jan. 2 to 104.8 for the week ended Jan. 30. Specific straws in the wind were afforded by reports such as that of the Ford Motor Company, which disclosed that production in January was the largest for that month since 1930. General improvement during recent months has been reflected in foreign

trade, which in 1933 showed the first rise over a previous year since 1929.

Improvement, however, has affected unemployment but little, since, according to William Green of the A. F. of L., approximately 10,826,000 were out of work during December. The Federal Emergency Relief Administration reported on Feb. 2 that 14,960,418 individuals were on public relief rolls in November, a total that must have been considerably increased when unemployment rose in December and the CWA enlisted individuals who had not been receiving direct public aid. So long as this army remains without work, it is hard to accept the idea of real business improvement. Even an upward tendency means little unless the jobless can begin to contribute to the nation's purchasing power.

THE RAILROAD PROBLEM

The railroads still present a disturbing feature of the general business situation, although the net operating income of the Class I roads was 15.6 per cent higher in December, 1933, than in the same month of 1932. The entire railroad problem was surveyed in a report by Joseph B. Eastman, Federal Railroad Coordinator, made public on Jan. 20. Though outlining a plan for eventual government ownership and operation of the roads, Mr. Eastman recommended continued private operation for the present with the help of government loans, regulation by the Interstate Commerce Commission and the coordinator, and reorganization of bankrupt roads.

Looking ahead, however, Mr. Eastman outlined a plan for the "United States Railways," purchased from the present owners through an exchange of securities, and managed by a board of public trustees free from political connections. The railroad corporation

thus established would be run as any privately owned business, paying taxes to the Federal Government, meeting interest and sinking fund requirements and so on. Surplus earnings would be devoted to new equipment or to the retirement of indebtedness, according to the discretion of the trustees.

Other forms of transportation and communication may be subject to government regulation if measures now under discussion reach fruition. Before the House is a bill for regulation by the Interstate Commerce Commission of buses and trucks. The bill has been approved by the ICC. Regulation of telegraphs, telephones and radio by a single Federal agency has been urged in a recent report to the President by an interdepartmental committee. Supervision, according to the committee, would not end private ownership but would seek to reduce rates, prevent speculative management, extend services and so on.

BUSINESS EVILS

Investigations on Capitol Hill continued during January to disclose the less desirable aspects of American finance and business. The probe into the Detroit banking collapse brought to light the evils attendant upon holding company management, the lax leadership of Detroit banking and the failure to reveal the true condition of the banks in regular statements or stockholders' reports. Of a more sensational nature were the revelations before the Senate committee investigating ocean and air mail contracts.

The disclosures regarding air-mail contracts threatened to implicate several members of the Hoover administration, who, it was alleged, were not always disinterested in how mail contracts were awarded. While the government was to all intents and pur-

poses subsidizing air lines, officials of these lines, it was shown, were making tremendous profits through speculating in the stock of the companies and were receiving salaries hardly commensurate with the economic position of enterprises that supposedly could not survive without government help. Finally, according to testimony presented at the hearings, lobbies were maintained by the companies at Washington, and there was a close relationship between them and the government agencies purchasing planes.

Even before the Senate Committee's investigations were completed, President Roosevelt apparently believed that enough evidence of collusion in obtaining air-mail contracts had been uncovered for him to take decisive action. On Feb. 9 Postmaster General Farley annulled all air-mail contracts, effective at midnight on Feb. 19, and in an executive order the President directed that the War Department assume the duty of transporting mail by air. Opinion on the President's action was divided, for it was felt in some quarters that guilt had yet to be proved and that not all air companies, in any event, were guilty of the practice revealed by the Senate Committee. Moreover, it was alleged that the development of an important infant industry would be hampered if not stunted. On the other hand, the disclosures had been so sensational that it was difficult to see how the administration could avoid acting quickly and vigorously.

Meanwhile, the House Naval Affairs Committee had begun to inquire into the profits of manufacturers who had sold airplanes and equipment to the government during recent years. Some of these companies, according to naval accountants, showed profits of from 5 to 50 per cent. That the scandal might spread to the War Department also

was suggested on Feb. 6, when a Federal grand jury began looking into the awarding of army contracts.

Although, with the exception of the War Department, these investigations were concerned with events in the Hoover administration, there have been ugly rumors for a long while that politics was a little too much in evidence in many matters in which the public had a direct interest. President Roosevelt gave substance to the rumors when he declared on Jan. 17 that no holder of high political office should practice law in the capital. Immediately Robert Jackson, secretary of the Democratic National Committee, resigned his position, and it became known that Frank C. Walker, treasurer of the committee, had likewise resigned. Previously J. Bruce Kremer of Montana and O. Max Gardner of North Carolina had withdrawn from the committee. The day following the President's move against the politico-lawyer system, Senator Vandenberg introduced a bill in Congress which would prohibit national committeemen from practicing before government departments.

PUERTO RICO'S GOVERNOR

Puerto Rico's much harassed Governor, Robert H. Gore, resigned on Jan. 12. Major Gen. Blanton Winship was immediately appointed to the post. General Winship served as Acting Secretary of State and Justice in Cuba from 1906 to 1909 during the American administration of the republic. He acquired further experience in Spanish-speaking countries when he was legal adviser to the Governor General of the Philippines from 1928 to 1931. The new Governor, at his inauguration on Feb. 5, emphasized the need of solving the island's grave economic problems.

Good Neighbors in Central America

By CHARLES W. HACKETT

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CENTRAL AMERICAN relations have been clouded for more than two years because treaty engagements between the various republics made it impossible for them to recognize the *de facto* régime of President Maximiliano Hernández Martínez of El Salvador. The United States, which was also pledged to abide by those engagements, was likewise debarred from extending its recognition. This anomalous situation was at last cleared up during January, and El Salvador is once more on terms of good fellowship with her neighbors and with the United States.

When General Martínez was named President of El Salvador by a military junta on Dec. 4, 1931, after a revolution had overthrown the constitutional régime of President Arturo Araujo, recognition of the new government was withheld by the four neighboring Central American countries and by the United States, in accordance with the Central American Treaty of Peace and Amity of 1923. This treaty, to which the five Central American republics were signatories, and the principle of which the United States pledged itself to follow in its dealings with those republics, set forth the policy of non-recognition of governments established by force. Blocked by this treaty from extending recognition to the Martínez government, the government of Costa Rica more than a year ago called upon the other signatory governments to join with it in terminating the

1923 pact. Without such action by at least three of the signatories, the treaty was due to be extended automatically for another ten-year period from Jan. 1, 1934. But only El Salvador joined Costa Rica in denouncing the treaty.

The government of Costa Rica now considered itself free to recognize the Martínez government and, accordingly, did so on Jan. 1. New Year's greetings, which were regarded as tacit recognition, were sent by President Jiménez of Costa Rica to President Martínez. On Jan. 23, Francisco Martínez Suárez formally presented his credentials to President Jiménez as the Minister of El Salvador.

The formal establishment of diplomatic relations between Costa Rica and El Salvador was followed by the recognition of the Martínez government by the three other Central American States on Jan. 25 and by the United States on Jan. 26. In announcing this step by the United States the Department of State said that it was taken "in view of the denunciation by El Salvador of the Treaty of Peace and Amity of 1923 and the recognition on Jan. 25 of the present Salvadorean régime by Nicaragua, Honduras and Guatemala—Costa Rica having previously denounced the treaty and extended recognition to El Salvador."

THE MEXICAN SIX-YEAR PLAN

One of the most important parts of Mexico's socialistic Six-Year Plan, the

minimum wage law, went into effect on Jan. 1. The law establishes a minimum wage of 1.50 pesos (about 42 cents at present) for Mexican workmen in general, but allows a higher minimum scale for workers in some industries—as, for example, 3 pesos for the employes of petroleum companies. Writs of injunction against this wage scale were secured on Jan. 6 at Tampico by the Aguila and Huasteca refining companies, the largest employers in the Tampico district. Several other businesses at Tampico, including a large clothing factory, closed their doors on Jan. 6 on the ground that they could not afford to pay the legal minimum wage. As a result of the law, more than 1,000 persons were reported to have been thrown out of work at Tampico during the week after the law became operative.

President Abelardo Rodríguez in a radio address over Mexico's first national radio hook-up on Jan. 9 defended the government's program for establishing minimum wages for Mexican workmen and made an appeal for its universal support. Explaining the 1.50 pesos a day wage for every laborer, he said that the government program was to treat every worker as the head of a family, as a member of a civilized community, who should not only be able to supply his family's bare material necessities, but should also be able to provide himself and his dependents with honest pleasures and spiritual necessities in accord with ideals of modern civilization. He declared that the theory of starvation wages and of employment to point of exhaustion had passed in Mexico, to be replaced by one of real pay, organization and skilled workmen. Greater consuming capacity for Mexican workmen, with its corollaries—

greater production and better profits for investors—was predicted by the President as the outcome of the minimum wage law.

A law to "federalize" the electrical industry in Mexico was formally promulgated in the official newspaper, *El Diario Oficial*, on Jan. 20. Though passed by the national Congress two months earlier, the measure required the approval of a majority of the State Legislatures before going into effect. The purpose of the law is to enable the government to encourage the electrification of industry throughout the country and to study the possibilities of erecting new power plants so that every village will be provided with electricity.

General Lázaro Cárdenas, the Presidential nominee of the dominant National Revolutionary party, formally initiated his campaign on Jan. 15 with a speech at Toluca, capital of the State of Mexico. He created a sensation by warning foreign governments, bankers and oil companies not to interfere in the campaign. He said: "I want no foreign meddling, no foreign aid, as the National Revolutionary party is capable of directing its activities, which will culminate in the election to the Presidency, without outside assistance."

Another candidate for the Presidency in the July elections entered the field when the convention of the Radical party at Vera Cruz on Jan. 14 nominated former Governor Adalberto Tejeda of the State of Vera Cruz as its candidate. Radical party speakers launched sharp attacks on General Plutarco Elias Calles and other leaders of the National Revolutionary party, denouncing also several oppositionist leaders, including General Villareal, Luis Cabrera and Gilberto Valenzuela.

Political Unrest in South America

By HENRY GRATTAN DOYLE

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DESPITE some evidence of improved economic conditions in a number of the South American countries, political unrest broke out in several nations almost simultaneously with the close of the Montevideo Conference. In Argentina, Radical leaders involved in the revolts of Dec. 28 and 29, 1933, were exiled to Europe on Jan. 20, while forty-five other rebels were sent to the penal colony of Ushaia, at the southern tip of South America.

In Brazil, the uncertainty caused by the Cabinet crisis in December seemed to have ended when on Jan. 15 Dr. Osvaldo Aranha resumed his post as Finance Minister. Senhor Afranio de Mello Franco, the Foreign Minister, was invited to resume his post at the same time, but declined on the ground ill health. General Goes Monteiro, commander of the Federal forces during the Sao Paulo revolt of 1932, became Minister of War on Jan. 19, succeeding General Espirito Santo, who had also resigned.

In Chile, following the unsuccessful plot against the government which ended on Jan. 2, orders were issued for the arrest of former President Ibañez and other alleged revolutionary leaders, including a former Finance Minister, Pablo Ramírez. Colonel Ibañez is reported to be living near Mendoza, Argentina. A Fascist organization, called "storm troops" (*Tropas Nacistas de asalto*) has been organized in Chile by Fernando Ortúzar, who announced that the term Nacistas ap-

plied to them has nothing to do with the German Nazis, but is an abbreviation of the name of the party to which they belong—the National Socialists.

Organization of a "civil militia" by the Uruguayan Nationalist party was reported from Montevideo on Jan. 13. The purpose of the new force is to combat disloyalty, and its organization is apparently inspired by the discovery of revolutionary activities in the army, as the result of which sixty-six officers and enlisted men were court-martialed on Jan. 2.

A military plot in Peru caused the arrest of fourteen soldiers and a number of civilians on Jan. 8. It was announced on Jan. 25 that forty-nine Communists had also been arrested in connection with a plot for a revolutionary general strike. A transportation strike involving street-car, bus and taxicab operators began in Lima on Jan. 29, lasting for two days. Aprista activities caused the arrest of several members of the party on Feb. 1, and when on Feb. 5 the police tried to arrest Manuel Seoane, an Aprista leader, after a party rally at the football stadium in Lima, rioting took place in which several persons were wounded. The Apristas opened headquarters in Santiago, Chile, on Feb. 7, claiming that more than forty members of the party had been arrested in Lima and that party newspapers and social centres had been suppressed.

Venezuela also experienced unrest. Revolutionists were said to have landed in Trinidad after an unsuccessful

ful effort to seize the armed trading vessel Delta, while General Rafael Simón Urbina, whose melodramatic seizure of the American steamer Maracaibo and subsequent landing on the Venezuelan coast in June, 1929, resembled a soldier-of-fortune romance, was reported to be in Panama, perhaps engaged in directing activities of his supporters in Venezuela.

THE COLOMBIAN ELECTION

Dr. Alfonso López, leader of the Liberal party and chief of the Colombian delegation at Montevideo, was elected President of Colombia on Feb. 11. His only opponent was Eutiquio Timote, a full-blooded Indian, nominated by the Communists. The Conservative party, which controlled the Presidency for forty-four years before the election of President Olaya Herrera, a fusionist candidate, in 1930, made no nomination this year. Dr. López is almost solely responsible for the successful efforts to avoid bloodshed between his country and Peru over Leticia.

THE CHACO PROBLEM

The great international issue before the Montevideo Conference remains unsolved. Warfare in the Chaco continues, in spite of the efforts of the conference and the high hopes raised by the fruitless armistice which expired on Jan. 6. The course of the Chaco negotiations, to take a gloomy view, seems to indicate that nothing short of the strongest economic or even military sanctions would have been effective, and these the countries represented at the conference are naturally and justifiably loath or unwilling to use.

From the military point of view, Paraguay's position apparently has continued to improve. The Paraguayan War Office announced on Feb.

1 that its armies were advancing toward La China, about twenty-eight miles west of Fort Platanillos, on the military road from Fort Ballivián. Their ultimate objective was reported to be Cabezón, about twenty-three miles further west, whence a road leads to Fort Muñoz. Capture of Cabezón would give the Paraguayans control of all the available main roads in the Chaco except those along the flooded Pilcomayo River.

THE ORIENTE QUESTION

Recent emphasis upon the Leticia territorial dispute between Colombia and Peru, now in process of arbitration by the League of Nations Leticia Commission, has rather overshadowed the conflicting claims of Peru and Ecuador in the same sector, involving sovereignty over the Oriente region, an area of about 40,000 square miles lying east of the Andes and south and west of Leticia, and overlapping in part the territory assigned to Peru by the settlement of the Peruvian-Colombian frontier which ultimately caused the Leticia incident. In 1924 a protocol was signed under which the two countries were to seek a settlement by direct negotiation as soon as the Peruvian-Chilean boundary should be settled. Failing such settlement, the President of the United States was to be the arbitrator.

The solution of the Tacna-Arica dispute brought the Oriente question again to the fore. On Feb. 6 it was announced in Washington that President Roosevelt had consented to act as arbitrator at the request of the two disputants. Under the protocol, the representatives of the two countries are to meet in Washington, and if they fail to agree on a settlement the arbitral zone agreed upon by them is to be submitted to the President for decision.

Canada Charts Her Course

By J. BARTLET BREBNER

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THE Canadian Parliament convened on Jan. 25 to listen to the speech from the throne and other official announcements which outlined the government program for 1934-35. The Dominion is planning a large program of public works to relieve unemployment, both with and without provincial and municipal cooperation. Direct unemployment relief is to continue under the former arrangements, at least until June. The Western farmers are to be placated by the creation of an agricultural marketing board. A central bank is to be established and the Bank Act revised in the light of the recommendations of the Royal Commission. The Companies Act, which corresponds in some ways to the Sherman Anti-Trust Act, is also to be revised. The Excise Acts are to be altered and consolidated in order to meet present requirements more precisely and in particular to accommodate the discrepancies with American excise on spirituous beverages. As the government is faced by a heavy deficit for 1933-34, in spite of present rising revenues, the estimates for 1934-35 were reduced by \$17,000,000.

Seemingly the Prime Minister was taking a leaf from President Roosevelt's book. The World Economic Conference had declared that a 25 per cent gold reserve was sufficient. But Canada has 40 per cent. Thus a reduction in the reserve or a devaluation of the Canadian dollar from 23.22 troy grains of gold to parity with the American would give the government

funds for its expenditures on unemployment relief. At present, although the Canadian dollar brings over 99 cents in New York, its theoretical parity is \$1.69.

Canadian mining production during 1933 rose 8.5 per cent over 1932 to a total of about \$200,000,000. Of this, gold yielded about \$84,000,000 because of its rise in price, although the profits in processing low-grade ores reduced the output from 3,446,000 ounces in 1932 to 2,945,000 in 1933. Canada exported \$56,000,000 in gold, reckoned at the old price (\$20.67), chiefly to London because of the open market there. At the beginning of February the opening of the market in the United States made exports to New York more profitable. Such a movement should aid Canadian exchange in New York, where the Canadian dollar, close to parity, has shown greater allegiance to the American dollar than to the pound sterling. Canada gained about \$61,500,000 in international exchange payments during 1933.

Business and industry continued to improve during January, chiefly because of increased activity in basic industries like lumber and mining. The price and movement of wheat improved slightly in the last half of January. It was announced in New York on Jan. 20 that a test shipment of Canadian grain from New York had been accorded free entry to Great Britain; this was expected to revive from their moribund state what had

been important activities in Buffalo, along the Barge Canal and in the Port of New York.

External trade showed a steady increase over 1932 with no great alteration in the tendencies noted in recent months. The favorable balance of trade for 1933 was \$136,254,128 and the total volume about \$940,000,000.

CALM OVER BRITAIN

Interest in foreign affairs has somewhat diverted the attention of the British public from domestic developments. The situation in Austria, the attainment of some kind of European agreement on armaments, the Russo-Japanese crisis and the fluctuating relations of the pound, the dollar and the franc have continuously engaged the Cabinet. Because of differences of opinion and the fear of initiating action that would be difficult to carry through, British foreign policy has to a notable degree fallen back on the old formula of "Wait and See." Something of the same inertia has crept over domestic affairs, since they can seldom be viewed altogether apart from their international aspects.

The successive monthly rise in exports which has continued since June was barely maintained in December, and for the first time since July there was a decrease as compared with 1932. Moreover, the tariff and quota system produced some of its inevitable international difficulties. French refusal to extend to Great Britain the 1931 quotas which had been granted to Belgium and the United States evoked at the end of January an ultimatum threatening reprisals. Though France refused to give in, the British Government decided to withhold action because of the disturbed political situation in Paris. Some differences with the United States were resolved on Jan. 8 by raising the quota on

American pork products from 6.3 to 7.6 per cent, in return for which the United States doubled the four months' quota on British spirituous liquors. Russo-Canadian competition for the British timber market in 1934 was compromised by permitting the importation of 350,000 standards [a standard equals 200 board feet] instead of the 435,000 for 1933 or the 450,000 tentatively agreed upon for 1934. No action was taken in the vexed matter of shipping subsidies. Although the government again promised full support against unfair foreign competition in textiles, action was postponed pending Anglo-Japanese negotiations.

Industry and retail trade seemed to be holding up and even making gains during December, but a rise of 164,989 in the total of unemployed (2,389,068) during January, while partly seasonal, came as a shock after a series of monthly reductions. The industrial scene indicated that the manufacture of capital goods, such as iron and steel, was still improving, as were automobiles, linen and woolen textiles, but that cotton was still sick and that building construction was languishing. Progress was being made toward the iron and steel cartel upon whose creation the iron and steel tariffs were conditional.

The confident estimates of December that there would be a large Treasury surplus at the end of the fiscal year on March 31 had to be modified during January, but the prospect was still bright enough for the advocacy of three different means of disposing of it: (1) To reduce the income tax from 5s to 4s 6d in the pound; (2) to restore the 1932 cuts in civil service salaries; (3) to increase naval, military and aerial armament. Naturally, however, the financial picture was obscured by the new gold valua-

tion of the dollar and the troubles of the French Government.

The pound fluctuated slightly in terms of gold and ranged between \$4.90 and \$5. This was too high a rate for stabilization with the dollar. London's calm during a period when many outsiders expected frantic efforts to keep down the pound in terms of dollars was founded on the shrewd forecast that Paris could be made to receive most of the shock in gold purchases and that British policy would be facilitated by the return to the United States of the "nervous capital" deposited in London for safety.

The Conservative party has not relished the recent unpopularity of the national government and would welcome a return to straight party lines, although there would be serious resentment if this were done without a general election. The Conservatives have been fortunate, however, in finding two good targets among their opponents—Sir Oswald Mosley, head of the British Union of Fascists (see February *CURRENT HISTORY*, pages 540-547), and Sir Stafford Cripps, chief spokesman for the would-be "intellectual," or "university," leaders of Labor. The Rothermere press began a campaign in support of Mosley on Jan. 14, but the moderate audience which greeted him in Birmingham a week later encouraged his critics. The Beaverbrook press, which was thought to be sympathetic, turned against him, thereby continuing its rivalry with Lord Rothermere's papers.

Sir Stafford Cripps has for almost a year been outspoken in his belief that Labor, on regaining power, could achieve its ends only by quasi-dictatorial action, beginning with the capture of the financial machinery and proceeding to nationalization of basic industry and services. He startled the country on Jan. 6 by saying: "It will

be necessary to deal with the House of Lords and the influence of the City of London. No doubt we shall have to overcome opposition from Buckingham Palace as well." This reflection on the accepted convention of the Crown's neutrality in politics and government he later said referred to the King's advisers and not to the King, but it gave the Conservatives a weapon against him. The Labor party again formally repudiated all dictatorial ambitions and reaffirmed its faith in democracy.

The recent decision by Mr. Justice Macnaghten that "it must not be presumed that the Crown has any right to intervene in a private suit or that the court is in any respect the servant of the Crown" sounded reminiscent of Coke and the conflict with the Stuarts, but it was actually a blunt and highly important reproof to the Home Office for presuming to interfere with the processes of civil justice. The details of the case were not important in themselves, but notice was served on the Executive and the bureaucracy that they had gone too far. "The judges of these courts," the judge said, "ever since the Act of Settlement, have been absolutely independent of the Crown."

IRELAND SELF-CONTAINED

President de Valera's government, after deciding against another general election, has committed itself to the attainment of economic self-sufficiency. A conference of Irish manufacturers in Dublin on Jan. 23 and 24 presented an opportunity to demonstrate the remarkable progress made under the direction of Sean Lemass, Minister of Industry and Commerce, in building up domestic industry. Many projects are under way and can be completed if Fianna Fail stays in power and can raise the necessary

capital through taxation and borrowing. Taxes are frequently uncollectible, however, and the last public loan was not completely subscribed.

Whether Irish purchasing power will be great enough to support the new industrial structure cannot be determined at present. That power depends on the success of Irish agriculture and the discovery of foreign markets for Irish goods. Agriculture has been hard hit by the loss of most of its British market and foresees quotas on milk products and potatoes as well as on cattle. Unquestionably capital is being steadily consumed in spite of export bounties. Foreign markets are hard to penetrate. After the disappointment of its emissaries in Berlin, the government sent John Leyden to Washington to try to arrange for a

reciprocal trade agreement. James Maxton and John McGovern, Labor members of the British Parliament, visited Dublin in January for conversations with de Valera, presumably on the possibility of an Anglo-Irish settlement.

General O'Duffy and his lawyers pretty well won their bout with the government by demonstrating in the civil courts the falseness of the charges against him under the Public Safety Act. The General and his League of Youth gained in favor as a result, and large enthusiastic meetings of the United Ireland party were held. These successes led to widespread disorder as armed members of the Irish Republican Army interfered with meetings and tried to terrorize O'Duffy's supporters.

France Survives an Upheaval

By GILBERT CHINARD

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FRANCE has within recent weeks gone through one of the most acute and potentially dangerous political crises since the establishment of the Third Republic. Although at this writing a new Cabinet headed by ex-President Gaston Doumergue seems to be capable of assuring the maintenance of law and order, the situation is such that anything, not even excluding the overthrow of the democratic system of government, is possible, for France today is the prey of discontent and dissension at home and of anxieties and fears induced by an ever-growing feeling of insecurity in the face of increasing tension in international affairs.

The actual "affair" from which these new troubles sprung is to be viewed as little more than one of those minor incidents which so often give rise to great events. In this case the story begins with the activities of Alexander Stavisky, an international adventurer of Polish origin, known under different aliases and as Monsieur Alexandre to his familiars. He had succeeded in becoming in a somewhat unexplained manner director of the important municipal pawnshop of Bayonne. On Dec. 30 he was reported to have disappeared with an issue of spurious pawnshop bonds amounting to about 400,000,000 francs (currently \$25,000,000). In

addition, he was said to have obtained the authorization to issue 160,000,000 francs (\$9,920,000) of worthless Hungarian bonds to cover his previous operations. The manager of the pawnshop, Gustave Tissier, who had been recently proposed for the Legion of Honor, was immediately arrested, and rumors were circulated at once that Stavisky was being protected by higher officials. Arrested several times on charges of frauds amounting to more than 10,000,000 francs, he had never been brought to court and his lawyers had always managed to obtain the postponement of the case. As the brilliant Monsieur Alexandre, apparently with the protection of the police, he had gambled at Monte Carlo and pursued his operations in different cities of France.

While the police were vainly looking for Stavisky, it was alleged by several newspapers that Albert Dalimier, Minister of Public Works in the Herriot Cabinet and Minister of Colonies in the Chautemps Cabinet, had issued a circular advising insurance companies to invest in pawnshop bonds. Premier Chautemps maintained that Dalimier had acted in good faith, that the incriminated circular was simply a matter of routine, and that he was energetically pressing the search for Stavisky. For several days the police were unsuccessful, and in Parliament several of the political leaders, including André Tardieu, expressed their intention of bringing the matter to a head and of demanding the resignation of the Cabinet. The press and the public in the meantime had waxed sarcastic at the failure of the police to lay their hands on the fugitive and definitely brought charges of corruption against the whole administration of justice in France.

When the Chamber reconvened after

the Christmas recess, on Jan. 9, Premier Chautemps had accepted the resignation of Dalimier and appointed in his place Labor Minister Lucien Lamoureux. The first meeting, at which routine matters were discussed and the former President of the Chamber, Ferdinand Buisson, was re-elected, took place while around the Chamber of Deputies about 1,000 Camelots du Roi (King's henchmen) were heckling the police, breaking lamp posts and singing derisive songs. On the same day Stavisky, who had been finally discovered in a villa near Chamonix, at the foot of Mont Blanc, shot himself when the police demanded admission to his room, and died without recovering consciousness a few hours later. Rumors were at once circulated that he had been shot by the police to prevent revelations regarding his accomplices and the protection he had enjoyed. Stavisky's lawyers declared that he had had an interview with Jean Chiappe, the Prefect of Police of Paris. However, a letter indicating Stavisky's intention to commit suicide was found in his room, and Mme. Stavisky declared that she was convinced her husband had killed himself.

On the next day, Jan. 10, while Premier Chautemps was fighting for his Ministerial existence in the Chamber of Deputies, continuous rioting took place on the adjacent boulevards. The Premier boldly retorted to his opponents that a conspiracy to overthrow the parliamentary régime had been uncovered, that large quantities of pamphlets calling for a coup d'état had been printed for distribution to the people of Paris. The same day the Royalist journal, *L'Action Française*, declared that the French pretender, the Duc de Guise, had conferred at his residence in Belgium with the "regional directors" and had given "in-

structions made necessary by the grave situation in France." At the same time Premier Chautemps denounced the royalist press, defended the parliamentary system, promised a thorough reorganization of the police and, after a stormy debate lasting more than twelve hours, during which he was violently attacked by M. Ybarnegaray, the Basque Deputy, won a vote of confidence by 360 votes to 229, the Chamber refusing to appoint a special commission of investigation and affirming its confidence in the measures taken by the government.

Apparently the Cabinet had weathered the storm, while the public after the excitement of the first few days seemed to tire of the campaign of mudslinging going on in the conservative press. The Stavisky scandal, however, again caused tumult when, during the debate in the Chamber on the afternoon of Jan. 18, Deputy Henriot occupied the tribune for four hours, hurling accusations at several members of the Cabinet and denouncing particularly Minister of Justice Raynaldy. In the lobby of the Chamber Anatole de Monzie, the Minister of Education, and Deputy Henriot came to blows and Désiré Ferry, director of the newspaper *La Liberté*, was struck in the face by Joseph La Grosillière, Deputy from Martinique. During the next two days rioting spread throughout Paris. The Royalists engaged the police around the Chamber of Deputies, invaded the Palais de Justice and paraded along the Boulevard Saint-Michel. The Communist rioting was far more serious; windows were smashed and goods destroyed in several stores around the Place de la Bastille, while along the Boulevard Sebastopol crowds of municipal and State employes, trying to reach the City Hall in order to protest against the pay cuts decreed by the Chau-

temps budget, proved almost too much for the police and the mounted Republican guards.

Premier Chautemps, on Jan. 23, was able to answer the accusations of Deputy Henriot to the satisfaction of the Chamber, declaring that the magistrates were doing their full duty, that the investigation of the Stavisky scandals was proceeding normally and that prosecutions would be pressed without fear or favor. He reproached his opponents with attempting to discredit the parliamentary régime and finally received a vote of confidence of 367 to 201. But the strength of the Cabinet indicated by this vote was not real. It was tacitly understood that M. Raynaldy would have to resign in order to defend himself against the embarrassing accusations launched by Deputy Henriot, who had charged him with being formerly a director in one of the companies formed by one Sacazan, who was subsequently found to be an associate of Stavisky, and with having received as a "gift" a large part of the number of shares necessary to become a director.

Meanwhile, public opinion was becoming increasingly restless because of the failure to determine the responsibilities for the railroad disaster in which 200 persons were killed at Lagny on Dec. 23. The nervousness was brought to a still higher pitch by the wreck of the Emerald, France's newest and fastest commercial plane, on Jan. 15, when Governor Pasquier of Indo-China, who had been hastily summoned to Paris, lost his life with ten other passengers.

The clamor for a complete housecleaning and reorganization of the government steadily grew and, faced by ever more insistent questioning in Parliament and by increasing riots in the streets of Paris, Premier Chau-

temps declared himself unable to accomplish his mission "in the present state of disturbance of the public and in the midst of a political agitation which was used as a pretext for attacks against the régime," and on Jan. 27 handed his resignation to the President of the Republic without coming a last time before the Chamber of Deputies to defend his policies. The Cabinet had lasted exactly two months, M. Chautemps having become Premier on Nov. 27 after the Sarraut Ministry had fallen on an issue of fiscal policy.

As the Chautemps Cabinet came to an end, outside on the boulevards around the Opéra and the Madeleine rioters had assembled and were singing the "Marseillaise" and shouting "Down with Parliament." In the morning *L'Action Française* had ordered its young men to get ready and, joined by members of the taxpayers' association, they repeatedly attempted to break through the lines of policemen and Republican guards. Trees were damaged, café tables, siphons and glasses were used as missiles as the police charged along the boulevards. Amusingly enough the rioters became hungry toward dinner time and adjourned about 6 P. M., but the battle was renewed in the late evening and new forces were added when rougher elements arrived from the Montmartre section. The rioting ceased temporarily when the news of the resignation of the Cabinet became known. Of the 400 young men who were arrested only 28 were detained. They were accused of damaging property or assaulting the police; 29 policemen had been injured and 3 had to be taken to the hospital.

The selection of a new Cabinet rested with the President of the Republic. In order to comply with a demand often expressed during recent months

for a Cabinet of national union, President Lebrun asked his predecessor, Gaston Doumergue, to form a new government. M. Doumergue refused and M. Lebrun turned to Jules Jeanneney, President of the Senate, but he refused for reasons of health. Ferdinand Buisson, President of the Chamber, also refused on the ground that being nominally a member of the Socialist party he could not obtain the support of the Centre. Edouard Herriot, though consulted, was not invited to take charge, and finally Edouard Daladier, who, in January, 1933, had formed a Cabinet which lasted until October of the same year, accepted the task of forming a new government. This he did on Jan. 30, the personnel being as follows: Premier and Foreign Minister, Edouard Daladier; Justice, Eugène Penancier; Finance and Budget, François Pietri; Interior, Eugène Frot; War and National Defense, Lieut. Col. Fabry; Navy, Louis Chappedelaine; Labor, Jean Valadier; Public Works, Joseph Paganon; Air, Pierre Cot; Pensions, Hippolyte Ducos; Post and Telegraphs, Paul Bernier; Agriculture, Henri Queuille; Merchant Marine, Guy de la Chambre; Public Health, Emile Lisbonne; Colonies, Henri de Jouvenel.

The composition of the Cabinet was vehemently criticized. Franklin Bouillon, a leader of the Radical Socialist party, declared that he would interpellate on "that new scandal"; Colonel Fabry was excluded from the Tardieu party and the friends of M. Herriot were more than cold toward the new Premier. Even before appearing before the Chamber to explain his program, M. Daladier, who enjoys in Parliament the reputation of a "strong man," decided to act and dismissed a number of prominent government officials.

Among them was the Prefect of Po-

lice, Jean Chiappe, who was highly popular with the people of Paris and who boasted of "a skillful hand in a velvet glove." His very popularity rendered him somewhat suspect, and fear had been expressed that the police force was more loyal to its chief than to the government. Up to this time, however, it had not seemed possible to dislodge him and he had been accused of being "a State within a State." He refused the post of Resident General of Morocco, which was offered to him, and announced that he would enter active politics and run for a seat in the Chamber as Deputy from Paris. M. Sibour, former Prefect of the Seine, was appointed Prefect of Police.

Pursuing his work of cleaning up, M. Daladier then asked Chief Attorney General Pressard, brother-in-law of former Premier Chautemps, to submit his resignation. Pressard was held technically responsible for the nineteen adjournments of the Stavisky case. At the same time ten high police or judicial officials were hit. An amusing consequence of the shake-up was the dismissal of Emile Fabre, Director of the Comédie Française, the French National Theatre, who had given recently Shakespeare's play *Coriolanus* and who was held responsible for the application which had been made to the present situation of the speeches in the play denouncing the Roman Senate. M. Thome, former Director of the secret service of the Paris Police and a poet, was appointed in his place. Subsequently, however, Fabre was reinstated and the performance of *Coriolanus* authorized.

Disapproving of Chiappe's dismissal, War Minister Jean Fabry, Finance Minister François Pietri and Minister of Technical Education Gustave Doussain resigned from

the four-day-old Cabinet. Yet their defection seemed rather to strengthen its position. Joseph Paul-Boncour took the portfolio of War Minister which he had already held and Paul Marchandau became Minister of the Budget, while Alexis Jaubert succeeded M. Doussain. The young rioters of the Royalist party, who considered M. Chiappe as a friend, seized this opportunity to swarm around the Opéra and to rally at the cry of "Long live Chiappe" and "Long live the police," while an association of war veterans, the Croix de Feu, gathered in front of the President's residence and had to be scattered by mounted Republican guards.

Feeling that the police might be unable to cope with the situation on Feb. 6, when the new Cabinet was to appear before the Chamber, M. Daladier ordered 3,000 troops to Paris, while machine-guns moved through the streets, which were patrolled by Spahis, the famous African cavalry. Several thousand police were massed around the Elysée, the President's residence. It was generally felt that the new Premier, although facing a fierce fight in the Chamber, had the situation well in hand.

But on Tuesday, Feb. 6, one of the most tragic episodes in the history of the Third Republic was to stir Paris and the whole of France so deeply that for a few hours it seemed as if civil war was imminent. According to schedule, the Chamber met in the afternoon to hear a Ministerial declaration. Fearing a repetition of the former agitation in the adjacent streets, Premier Daladier and Minister of the Interior Eugène Frot had stationed troops with machine-guns on the steps of the Chamber and placed a heavy guard on the bridge to prevent any crowd that might gather on the Place de la Concorde

on the other side of the river from crossing and beating against the walls of the Palais Bourbon, where the Chamber meets.

The new Premier read his declaration in the midst of a tumult unprecedented even in the troublous annals of the Chamber. He pleaded for support from the Radical-Socialists "in order to prevent a civil war" and lest "the Republic be forced to abdicate." Meanwhile Socialists, Communists and members of the Right engaged in free-for-all fights. The confusion increased when, after receiving a vote of confidence by 300 to 217, M. Daladier refused to answer questions from the floor. When the tumult grew to such height that the Opposition speakers themselves could not be heard above the deafening din, the Premier asked for an adjournment until the following Thursday and was supported by a vote of 360 to 120. Apparently the government had won, and yet it was soon evident that it had lost.

While the Chamber was in session, the crowd on the Place de la Concorde had grown unmanageable. In the morning *L'Action Française* had invited Royalist sympathizers to gather for a demonstration at the Palais Bourbon "to oppose the thieves and this abject régime." Similar announcements had appeared in the *Echo de Paris*, a Nationalist organ, which called upon the Patriotic Youth and the Croix de Feu organizations to assemble before the City Hall. On the other hand the *Populaire*, the organ of the Unified Socialists, had invited the members of the party "to defend their organization against the offensive launched by the forces of fascism"; and *L'Humanité*, the Communist organ, appealed for "direct action in factory and street against the Fascists."

The crowd which assembled on the

Place de la Concorde in the afternoon and grew larger in the evening was not at first in an ugly mood. It was made up of young Camelots du Roi, war veterans, idlers attracted merely by curiosity and also members of those unruly and criminal elements which usually live hidden lives in the underworld. As the evening progressed part of the crowd tried to force its way through the Champs Elysées toward the President's Palace and, using the same tactics as during the preceding days, erected barricades along the wide avenue to stop cavalry charges. Some rioters attempted to set fire to the Ministry of Marine building on the Place de la Concorde and were only dispersed after the police fired pistol shots into the mob. Meanwhile another part of the crowd was making an effort to cross the bridge leading to the Chamber of Deputies which was protected by police and Republican guards, with machine guns mounted on the steps of the building.

While the mob was milling about and fighting the police, the floodlights on the Place de la Concorde suddenly went out and added to the confusion. It was then, it seems, that machine guns were fired and bullets spattered on the façade of the Hotel Crillon and the American Embassy, which was protected by its heavy iron shutters. At the same time sporadic riots broke out in different parts of the city—at the City Hall, on the Boulevard Saint-Germain, around the City Hall and in the Place de l'Opéra. The number of casualties is still undetermined; official estimates placed the dead at sixteen and the wounded at over 500, including 180 civilians, 180 police, 130 mounted guards and 100 gendarmes. At once it was evident that the Daladier Cabinet, in spite of victory in the Chamber, had lost on the boulevards. Next morning (Feb.

7), infuriated veterans and taxpayers turned out and gathered in front of the official buildings without any organization, while hoodlums in several places began to turn over and set fire to taxicabs, buses and news stands.

In the meantime a delegation of Opposition leaders, including André Tardieu and Pierre Laval, called on President Lebrun to demand the immediate resignation of the Cabinet. They pointed out that the gravest disorders were likely if Premier Daladier and Minister of the Interior Eugène Frot, technically responsible as head of the government police, remained in office a day longer. The Ministers did not call on the President to submit their resignations according to the custom. Acting on their behalf and without being able to hold a Cabinet meeting because of the threatening crowds, M. Daladier presented his and their resignations to President Lebrun.

The news of the Cabinet's resignation brought about comparative quiet, and a kind of tacit armistice was declared on both sides. Again it was the duty of President Lebrun to name a new Cabinet. Former Premiers and political leaders whom he consulted agreed with him that a new effort should be made to induce former President Gaston Doumergue to take charge of the dangerous situation. It was felt that he alone had enough authority to calm the country and bring about political harmony. It was noted that on Jan. 28, in an interview given to the press, M. Doumergue had unequivocally indicated his views regarding necessary reforms. His words seem to sum up in a moderate but impressive way the attitude of the majority of the people: "The country nowadays cannot understand what the Deputies are doing. Unemployment is on the increase in France; a wheat crisis is sweeping

the country; business suffers; foreign policy and other urgent problems remain unsolved. Cabinet Ministers no longer have the opportunity to direct in person the governmental departments of which they are in charge. They are kept busy in the Chamber of Deputies, morning, noon and night, and so long as they do not direct matters nothing worth while will be accomplished."

The necessity to act promptly was even more acutely felt when, during the day of Feb. 7, reports from the provinces indicated that the trouble had spread to the large cities of France. Serious disorders were reported from Lyons and more or less serious rioting occurred in Nantes, Bordeaux, Marseilles, Lille and even the quiet city of Poitiers. Appealed to by telephone by the chief political leaders of France, M. Doumergue consented on the same day to come to Paris on his own conditions—namely, that he have full liberty with regard to his program and his choice of colleagues. It was understood that he would form a coalition Cabinet in which several former Premiers would be included. Acclaimed on all sides as a "national savior," the veteran ex-President arrived in Paris on Feb. 8 and proceeded at once to form a Cabinet.

One of the most remarkable combinations that France has ever had, the new Cabinet included representatives of almost every party from the extreme Right to the Neo-Socialists; only the Royalists, Socialists and Communists were excluded. Six of the Ministers had previously held office as Premier—Doumergue, Herriot, Tardieu, Barthou, Laval and Sarraut, while another was Marshal Petain, the defender of Verdun. Premier Doumergue, M. Herriot and M. Tardieu, to be free from adminis-

trative duties, did not assume charge of any department. The personnel of the Cabinet was as follows:

GASTON DOUMERGUE—Premier.
HENRY CHERON—Vice Premier and Justice.
EDOUARD HERRIOT—State.
ANDRE TARDIEU—State.
JEAN LOUIS BARTHO—Foreign Affairs.
ALBERT PIERRE SARRAUT—Interior.
Marshal PETAIN—National Defense and War.
FRANCOIS PIETRI—Marine.
LOUIS GERMAIN-MARTIN—Finance and Budget.
HENRI QUEUILLE—Agriculture.
PIERRE LAVAL—Colonies.
AIME BERTHOD—Education.
LUCIEN LAMOUREUX—Commerce.
ANDRE MALLARME—Posts and Telegraphs.
General VICTOR DENAIN—Air.
PIERRE-ETIENNE FLANDIN—Public Works.
LOUIS MARIN—Public Health.
ADRIEN MARQUET—Labor.
GEORGES RIVOLLET—Pensions.
WILLIAM BERTRAND—Merchant Marine.

The advent of M. Doumergue caused almost instantaneous appeasement. During the preceding three days Paris had made a gallant effort to carry on business as usual, even if in several quarters many shop windows were broken; but the Bourse never closed and the franc remained remarkably firm. The only impending trouble which still seriously disturbed the minds of the peace-loving was the call by the General Federation of Labor for a general strike on Monday, Feb. 12, as a warning against any attempt to set up a Fascist dictatorship. The strike, however, passed off almost without incident. Many million workers throughout the country stopped work, and public services were halted for periods varying from a minute to twenty-four hours. Some rioting occurred in a couple of Paris working-class suburbs. The principal feature of the day was the mass demonstration of Communists and Socialists, which took place without disturbance.

Premier Doumergue has a tremendous task before him. It cannot be denied that a spirit of restlessness and discontent now pervades France and that the recent events have helped to make many grievances more clear-cut.

At first the rioters represented only a small minority in Paris and had no backing from any seriously organized political party. The French people have since become insistent upon a complete overhauling of the administrative and judicial machinery. Behind the crisis are certainly important economic factors, but it is fully realized outside the Chamber of Deputies, and it is to be hoped by the Deputies themselves, that political stability is essential to economic recovery.

BELGIAN CABINET CHANGES

The position of the Belgian Cabinet at the beginning of the month of January was regarded as precarious on account of the differences among its members over the proposal to reappoint officials who had been dismissed for unpatriotic conduct during the war. The King, however, suggested that a commission be appointed to examine the doubtful cases and that the findings of the commission be made public. The question would affect about seventy-four employees out of the 400 who had been forced out of the service. This solution was considered as satisfactory, but on Jan. 10 Prime Minister de Brocqueville had to undertake a reorganization of the Cabinet owing to the resignation of Viscount Poulet as Minister of the Interior. The new Minister, M. Pierlot, is a Catholic Senator. M. Carton de Wiart, Minister of Social Welfare, was appointed permanent Belgian delegate to the League of Nations and was succeeded by M. Van Cauwelaert, an Antwerp Deputy. At a caucus of members of Parliament on Jan. 17 Liberal Deputy Marquet proposed to take advantage of the currency situation by issuing a 10,000,000,000 franc loan in order to pay Belgium's debt to the United States.

Hitler Wipes Out State Rights

By SIDNEY B. FAY

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ON Jan. 30, the first anniversary of Hitler's assumption of the Chancellorship, the German Reichstag was summoned to listen to the leader's plan for constitutional reform and for further unification of the individual German States. After Hitler's announcement, the Reichstag passed unanimously, in the three required readings, an act transferring the sovereign powers of the States to the Federal Government. The legislative functions of the States, as vested in their local Diets, were finally abolished, the Diets themselves having been practically abolished last October. Thus the States are brought under the complete authority of the Reich. The Federal Governors, appointed over the States by the Reich, were placed under the jurisdiction of the Reich's Minister of the Interior.

The working out of the details of a new unified constitution, which will replace the Weimar Federal Constitution, was delegated to experts in the Ministry of the Interior. A feature of the altered organic law will probably be a redrawing of the map of Germany, by which the boundaries and even the names of many of the present States will cease to exist. Dr. Frick, Minister of the Interior, declared on Jan. 31 that it was the task of the present generation to create, at last, a national unified Reich such as even Bismarck had been unable to bring about. "Bismarck's Second Reich did not interfere with the frontiers of the individual States.

This was the one great error of the Second Reich. In the new Germany there is no place for the Federal States in the old sense, or for the borders which they had." It would be useless, he said, for the Third Reich to cling for sentimental reasons to institutions which were evolved at different times and under different conditions. Such institutions might even have a pernicious effect nowadays "as a stimulus to monarchist party aims which are inimical to the people."

The ex-Kaiser's seventy-fifth birthday was celebrated at Doorn on Jan. 27 with the receipt of thousands of gifts and telegrams of congratulation. But in Nazi Germany little or no notice was taken of the event. No flag was flown in the exile's honor. No newspaper printed any account of the Doorn celebration. Even the ex-Kaiser's generous gesture of sending back to Germany a birthday fund raised by his admirers with the request that it be devoted to relieving the suffering of those overlooked by the Nazi Winter Help agencies was deeply resented by the Nazi press. The word appeared to have gone forth from Dr. Goebbels that no revival of monarchist sentiment or "counter-revolution" was to be tolerated. The daily *Voelkischer Beobachter* declared: "We have no use for a monarchy like that preceding 1914."

MUNICIPAL "LEADERSHIP"

New laws decreed in Prussia by Premier Goering on Jan. 8 intro-

duced the "leadership principle" into every municipality, and undid the work of Freiherr vom Stein, who provided in 1808 for the election of the heads of the towns by the citizens. Henceforth the Prussian Minister of the Interior or subordinate officials under his authority will name the burgomasters of the cities and the presidents of the villages.

A semblance of city and village councils is retained, but the citizens have no voice in their selection. Members will be appointed by the Ministry in agreement with the local National Socialist leaders, and will have only advisory functions, the officially selected town executives having full power to make all decisions and bearing sole responsibility for them.

GERMAN CHURCH CONFLICT

The conflict between the Nazi Reich Bishop Mueller and the leaders of the moderate Pastors' Emergency League, which has grown to a membership of 6,000, continued to disturb the religious peace of all Protestant Germany during January. Bishop Mueller, in a desperate effort to scotch the widening rebellion against his régime, on Jan. 6 sought to impose a dictatorship over the Evangelical Church.

Hundreds of Protestant ministers replied in defiance from their pulpits the next day. They announced to their congregations that they could no longer repose in Dr. Mueller the confidence required by his high office. In justifying their refusal to obey his orders they appealed to the clause in the Augsburg Confession of 1530 which enjoins disobedience to Bishops when they preach or ordain what is opposed to the Gospel. The pastors' manifesto ended by charging that the recently formed united church organization had broken down; that the new Reich Church Cabinet, whose mem-

bers had resigned, was not functioning; that a powerful movement had been allowed to make paganism its foundation; and that the National Synod had lost the confidence of a large part of the church's members. The manifesto was read again the following Sunday by hundreds of pastors who had not been able to secure a copy of it on Jan. 7.

Meanwhile, the Prussian secret police raided the homes of local secretaries of the Pastors' Emergency League and confiscated its membership lists. Bishop Mueller appeared to have the backing of General Goering, if not of Chancellor Hitler and President von Hindenburg. On Jan. 27 Dr. Mueller went a step further and suspended from office the Rev. Martin Niemöller, a Berlin clergyman who had been active in forming the Pastors' Emergency League and in defying Nazi control of the church. A score of like-minded pastors were also suspended. Next day, when Dr. Niemöller disregarded the suspension order and proceeded to enter his pulpit as usual on Sunday, he was taken into custody by the Prussian political police, subjected to an extended examination and released only after influential friends, among them a member of the Reich Cabinet, had intervened in his behalf. He was ordered to report daily to the police, however, and was to remain technically under arrest until the charges against him had been sifted. His personal papers and letters were also confiscated.

But this internal church conflict, which causes bitter division among the people whom Hitler desires to unite in peace and concord, appears to have been very distasteful to the Chancellor and to many other high Nazi officials, as well as to President von Hindenburg himself. Accordingly, on Jan. 31 the Chancellor ordered that the po-

lice were no longer to interfere in the strife, and that church authorities should not call on the police or enlist the help of governmental agencies.

NEW GERMAN LABOR CODE

The terms of the eagerly awaited Law for the Organization of National Labor were announced on Jan. 16. The new code will go into effect on May 1 next, the first anniversary of the Day of German Labor. It applies to industry the Nazi political principle of "leadership," and provides for the protection of the interests of the workers through "Confidential Councils," "Trustees of Labor," and "Social Honor Courts." Private initiative in business and industry is to remain, but it is to be subjected, if necessary, to supervision and control by the State.

In each enterprise with over twenty employes the employer becomes the "leader," with all the sense of responsibility which that term implies in Nazi idealism. The employes become the "followers." There will be a Confidential Council to give advice on running the concern, working conditions, and the maintenance of efficiency and a spirit of cooperation and comradeship. Its members will be selected every March by the leader-employer in consultation with the head of the Nazi cell organization. If the selection is not satisfactory to the "followers" they can appeal to the Trustee of Labor for a new selection, or if any measures of the leader-employer are objectionable to a majority of the Confidential Council the latter may also appeal to the Trustee of Labor, who will investigate the question and by the authority of the State settle it in a fair and equitable fashion.

The Trustees of Labor, of whom there will probably be thirteen, are

appointed directly by Chancellor Hitler, and will have jurisdiction over geographical districts, not over special industries. Their task is the maintenance of industrial peace by preventing the capitalist from encroaching upon the interests of the worker, and vice versa. The Trustees of Labor will also watch over the activities of the Confidential Councils, and interfere in cases where large dismissals of men are contemplated, being empowered to postpone dismissals for four weeks and even to prolong the postponement for two months. They will draw up general directions for the fixing of wages and see that wage arrangements are observed.

The most novel feature of the entire Labor Code is the institution of Courts of Social Honor. If people in control of concerns exploit their workers or offend their honor, if employes endanger social peace by provocative behavior or undue interference in the running of the business, if the workers make frivolous complaints to the Trustees, or if workers betray secrets learned in the Confidential Councils, a breach of social honor has been committed and will be dealt with on motion of the Trustee by the chairman of the Honor Court. If the chairman cannot decide whether an offense has been committed, he may summon his court—consisting of himself (a legal official), an employer and a "confidential man" chosen from lists drawn up by the Labor Front (the National Socialist labor union in which were coordinated several months ago all the members of the former trade unions).

This new Labor Code presents a very interesting attempt to deal with the labor problem. By some critics it is feared that it will hand the working classes over to the mercies of big

business. On the other hand, behind the Trustee stands the State and the all-powerful National Socialist party, of which the great Left wing is composed of workers who have been promised that the "socialism" in National Socialism shall be made real.

SAAR PLEBISCITE QUESTION

By the Treaty of Versailles the Saar territory, with its 800,000 inhabitants, rich coal mines and iron and pottery industries, was placed in the hands of a Governing Commission of the League of Nations. After fifteen years—that is, in 1935—the population was to vote its choice of three propositions: (1) To remain under the League of Nations, (2) to unite with France, (3) to reunite with Germany.

The population of the Saar is overwhelmingly German. Up to a year ago there was no doubt in the minds of Germans that the plebiscite would result in a sweeping German victory. Frenchmen also had generally reconciled themselves to such a result. But during the past year, with the triumph of Hitlerism in Germany, there have been some changes in the situation, and the outcome of the plebiscite is believed by many persons, especially outside Germany, to be less certain and complete.

In the first place, the Saar population is predominantly Roman Catholic, and has seen with alarm and disapproval the Nazi suppression of the Roman Catholic Centre party in the Reich and the domination which the State has sought to exercise over the church. In the second place, the Socialists and Communists are strong in the Saar. If the territory should be reunited with Germany they fear that they would be as relentlessly crushed as were their fellows in the Reich. In the third place, a large number of refugees from Germany

fled to the Saar and settled there. Finally, the pro-French partisans, acting in cooperation with Saar Socialists like Max Braun, have again become active in trying to persuade the inhabitants of the economic advantages of having the territory remain under the League of Nations.

To improve the diplomatic relations between France and Germany, Vice Chancellor von Papen proposed early in January that the plebiscite should be abandoned and that France and Germany enter into negotiations for turning the Saar back to Germany immediately. The same proposal was repeated by Chancellor Hitler to the French Ambassador in Berlin, on the basis that the territory was sure in any case to vote in favor of union with Germany, that campaigning preliminary to the plebiscite would only stir up more bad feeling, and that the result of the plebiscite would certainly leave a soreness on the part of the defeated side. There is much to be said in favor of these explanations. But the French rejected them. The open reason given was that the plebiscite had been stipulated in the Treaty of Versailles and that this stipulation should be carried out. The French have consistently upheld the treaty and see no reason to abandon it in this matter. Moreover, some of the French may hope that with the changed conditions obtaining in the Saar since Hitler came to power, a plebiscite might result in favor of the territory remaining under the League of Nations, or, failing that, that a plebiscite might produce results which would make possible a partition of the district between France and Germany.

Since the French rejected the German proposal for settling the question without a plebiscite, the problem of making proper arrangements to ensure a peaceful and impartial voting

a year hence came before the Council of the League of Nations at its Geneva meeting in January. Germany was invited to attend and take part in making the arrangements, in spite of her preliminary withdrawal from the League last October. But Germany declined. The Council then listened, behind closed doors as well as in public sessions, to long discussions about the state of affairs in the Saar and what ought to be done to secure a fair plebiscite. Pro-German memorials from Saar organizations set forth grievances due to the alleged pro-French attitude of the Governing Commission in the matter of schools, tariffs, the appointment of officials, and the desire for a strong "police force" of 3,000 or 4,000 men. Anti-

German organizations, on the other hand, sent counter-memorials and agents complaining of the alleged terroristic activities of German Nazis and their sympathizers. President Knox of the Governing Commission submitted a vigorous report (which the German member of the Commission refused to sign) declaring that Nazi terrorism had increased since his last quarterly report and charging the Nazis with organizing a disguised administration of the territory alongside the legal government represented by the Commission.

The Council of the League finally decided, on Jan. 20, to appoint a committee, consisting of the representatives of Italy, Spain and Argentina, to make a report at its May meeting.

Civil War in Austria

CIVIL war broke out in Austria on Feb. 12 as a result of the decision of the Dollfuss government to suppress the Social Democratic party. At this writing many hundreds had been killed in the fighting in the working-class districts of Vienna and in other cities, and the large municipal apartment houses, which had been built as part of the Socialist program in Vienna, had been subjected to artillery attacks.

Dispatches from Vienna on Feb. 11 reported that Chancellor Dollfuss had reached an agreement with the leaders of the Patriotic Front and that the dissolution of all political parties had been decided on, as demanded by the Fascist Heimwehr, an organization distinct from the Austrian Nazis. Prince Starhemberg, the leader of the Heimwehr, in an interview given to a Budapest newspaper stated that de-

mocracy in Austria was to be ended once and for all, that to clear the Socialists out of the City Hall of Vienna was first of all the Chancellor's job, and that if the Chancellor failed to do it the Heimwehr would.

Despite what was known in political circles of the intentions of the Chancellor and the Heimwehr, the outbreak of hostilities took the world by surprise. The trouble started at Linz on the morning of Feb. 12, when police and Heimwehr auxiliaries raided the Social Democrat headquarters there and were met by armed resistance. Several men were killed and many seriously wounded. The Linz Social Democrats thereupon proclaimed a general strike.

As soon as this news reached Vienna, trade union leaders held a meeting and decided that the moment had come for the Austrian Social De-

mocracy to make its last stand against the Heimwehr and fascism by declaring a general strike throughout the republic at 11 A. M. The government retaliated by outlawing the Social Democratic party, declaring martial law and ordering any civilian found with firearms to be court-martialed and executed at once.

Fighting was in progress in many parts of the country by nightfall, with the government troops apparently gaining the upper hand, though the Socialists were stoutly resisting in many scattered areas. In Vienna the Heimwehr were in possession of the City Hall, and Burgomaster Karl Seitz and other municipal officials were in prison. A censorship over telegrams and wireless messages was in operation.

As this magazine goes to press, the fighting had entered upon its third day. It was particularly fierce and sanguinary in Vienna, where artillery fire wrecked most of the huge workers' apartment houses, which the Socialists defended in the most determined manner. No accurate estimate of the number already killed was obtainable, but it was known to include women and children.

The German Nazis were remaining neutral, but, according to Frederick T. Birchall in a dispatch of Feb. 13 to *The New York Times*, they were "watching eagerly on the side lines for the right moment to plunge in and collect the spoils. They can count on thousands of recruits among the workers who formerly opposed them but now are animated only by anger against this [the Dollfuss] government and all it stands for."

On Jan. 11 the Austrian Government had announced that during the first week of 1934 there had been 140 Nazi bomb outrages, besides hundreds of less serious political offenses. There were rumors that the doughty little Austrian Chancellor would appeal for protection to the League of Nations, but instead he sent, on Jan. 17 a note of protest directly to Berlin, setting forth a long list of grievances. The German Government, after considering the protest for a couple of weeks, made a reply on Feb. 1, in which it sought to refute the Austrian charges. It declared that the disorders in Austria were due to the internal conditions in the country itself. This reply was regarded at Vienna as "unsatisfactory."

Italy's Corporate State Advances

By WILLIAM E. LINGELBACH

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FURTHER steps toward the goal of an Italian Corporate State have been taken recently, the most notable being the enactment of the Corporations Bill at the final meeting of the Chamber of Deputies on Jan. 18. This measure (described in these pages last month) received the unanimous en-

dorsement of the legislative body in a highly dramatic session. In accordance with the orders of the secretary of the Fascist party, the deputies left off their coats and appeared in black shirts. Before a gallery crowded to the doors with official and private guests, Premier Mussolini, also coat-

less and black-shirted, made his entrance amid the singing of the *Giovinezza*, and received a tumultuous ovation which lasted more than forty minutes. After the bill had been approved, Mussolini in a brief speech thanked the deputies for their services to the State and the Fascist revolution—and then the Chamber passed out of existence. Despite its rather innocuous character, it has approved a number of remarkable measures, notably the Lateran Agreements, which settled the sixty-year-old Roman Question.

Arrangements for the further development of the corporations will now have to be made in order to fit them more closely into the economic structure of the Corporate State, henceforth the basis of Italian political and economic organization. The Grand Council of the Fascist party meets on March 1, and the election (or perhaps better, the plebiscite) for the new Chamber is to be held on March 25. As was the case in the elections for the Chamber in 1929, the thirteen national corporations, representing capital and labor, will nominate 800 candidates, 200 others being submitted by such national organizations as the Ex-Combatants Association. From this group of 1,000 the Fascist Grand Council will select 400 names, which will then be submitted to the 10,500,000 voters for endorsement or rejection. Anticipating a favorable plebiscite, the government has already announced that the Chamber and the Senate will assemble on April 28, to listen to the speech from the throne. Precisely what the functions of the new Chamber of Deputies will be, save perhaps to vote itself out of existence, it is difficult to see, since all legislation of economic and social significance is, as provided by the Corporations law, now en-

trusted to the corporations themselves.

The process of fixing prices and regulating competition has already begun, and Italy is well on the way toward a regimented society in the matter of production and living costs. Under the new system, the individual guilds, of which there are more than forty, must make a detailed study of the cost of production and distribution in their particular fields, and, keeping in mind a reasonable margin of profit, suggest a fair price. This price will then be submitted to the particular corporation concerned for its approval or disapproval. Since each of the corporations is headed by a Cabinet Minister, State direction and cooperation is assured, and the initiative of the autonomous guilds is combined with watchfulness for the good of society as a whole. The entire process of production, distribution and consumption, of employment, wages and profits, and of domestic and foreign trade will thus, it is hoped, be scientifically integrated.

Italy's unfavorable trade balance and the heavy decline in both exports and imports during 1933 have caused considerable alarm. Imports decreased 875,000,000 lire and exports 872,000,000 (currently about \$75,000,000 in each case). At the same time, the estimated government expenditures for the fiscal year 1934-35, which begins on July 1, show an increase of nearly 25,000,000 lire compared with a year ago. The total expenditures are placed at 20,636,000,000 lire. Expenses of education will rise 33,000,000 lire, those of the Ministry of Agriculture and the corporations 83,000,000. To offset these increases, there is a reduction of 264,000,000 lire in the military estimates, though the air forces will receive an added 14,000,000 lire.

On the question of a strong Italian

air force there is no conflict of opinion. In announcing the successful completion of Vittorini Mussolini's training as an air-pilot, General Giuseppe Valle, the Secretary of War, urged that every family emulate Premier Mussolini and dedicate at least one son to the air service. The General predicted an increase in the number of pilots from 5,000 to 50,000. There has been inaugurated, moreover, a plan to build up the reserve officer corps by employing 100,000 officers to organize and supervise the military training of 2,000,000 boys of the *Balilla* and the *Avanguardisti* under the direction of the Minister of Education. These two Fascist Youth organizations, in which the boys range from 7 to 14 and from 14 to 18 years of age, respectively, are to be led by officers from the Fascist militia, who will instruct and "prepare them for possible emergencies."

SPAIN'S MODERATE CORTES

Now that the smoke of the Spanish political battle has somewhat cleared, it appears that the elections in November and December did not mark quite so complete a swing to the Right as was at first supposed. The Centre, instead of merely holding the balance of power, occupies a strategic position and, because of its experience and prestige, seems to be assured of leadership in the Cortes. Prime Minister Alejandro Lerroux has brought together a strong Cabinet representing the Right and Centre parties—a bloc composed of Radicals, Agrarians, Popular Action (Catholic), Catalans of the *Lliga*, Liberals and Progressives. The same elements appear in the organization of the Cortes itself. Santiago Alba, a Liberal Minister under the monarchy and now a member of the Radical party, has been elected permanent

president of that body and Madariago of Catholic Action has been appointed secretary. Commenting on the attitude of the new Cortes toward the Republic, Santiago Alba, in his speech of acceptance, declared: "The Republic and Spain have become one; the nation as a whole has awakened and become conscious of a great destiny."

In the meantime, the enthusiasm of the Right over its victory in the national elections was somewhat tempered by the setback in the elections in Catalonia on Jan. 14. Stung by their defeat in the country-wide voting, and stirred to unusual activity by the death of their popular President, Colonel Macia, the Catalan parties of the Left entered the campaign with unusual determination and enthusiasm. Liberal and Autonomist groups, fearful of the policy of the new régime in Madrid toward Catalan autonomy, put forth every effort to regain their lost prestige and to retain their control of the State government. In this they were ably supported by ex-Premier Azaña and his former colleagues of the Constituent Cortes. In the opening speech of the campaign, in the great Barcelona bull ring, on Jan. 7, Azaña appealed to a crowd of over 60,000 for unity of action in the fight against the conservative elements. The elections resulted in a complete victory for the *Esquerra*, which represents a combination of parties of the Left. Both the Right and the extreme Left went down to defeat, leaving the control of Catalonia in the hands of the moderate Left. This not only is a guarantee against any effort on the part of the Madrid government to impinge upon the liberties of the Catalans, but affords an assurance to the Catalan group that they will have in Barcelona a rallying ground for

their shattered forces. In the opinion of some observers, it will also serve as a more effective brake on the tendency toward excessive reaction in national affairs by the Madrid government than the threats of violence and general strikes by leaders of the Socialist Opposition in the Cortes.

Fortunately, the leaders of the Right are moderate, and for the present, at least, all groups, except the irreconcilable Monarchists, have expressed their willingness to cooperate with the Prime Minister. This is especially true of Gil Robles, the energetic young leader of Popular Action, who, though he refused to enter the Cabinet, has nevertheless assured it of his support in the face of the anger of the Monarchists. His party "accepts the Republic," he declared, "but insists that the government repeal or moderate by constitutional procedure the drastic anti-clerical measures of the last Cortes."

In addition, Robles announced an extensive social program as a part of the platform of the Conservative Catholic party—one which startled not only his own followers, but the Socialist Opposition as well. He set forth the details of his policy when, on Jan. 10, in a remarkable speech, he introduced a bill providing for social insurance of all workers between the ages of 16 and 60 whose yearly income does not exceed 6,000 pesetas (currently about \$800). The plan calls for a fund to which the employers will contribute 2 per cent of all salaries paid, the workmen $\frac{1}{2}$ per cent of their wages, and the government 50 per cent of the total thus raised. The government is asked also to appropriate at once 100,000,000 pesetas to start the insurance fund, and to guarantee its financing for two years. If the measure succeeds, it will intrude seriously upon what has hereto-

fore been a major proposal of the Socialist party and its principal basis for claiming to be the champion of the workingman. Following the example of the Catholic Centre in Germany, Popular Action is taking a leaf out of the Socialists' manual. "Workers are human beings," Robles declared, "and labor is not merchandise, the price of which can be subject to the whimsical fluctuations of the market."

In general, the Lerroux government is developing a moderate program, calculated to appeal to the masses of the electorate. The program has five features: (1) The continuance of State aid to the rural clergy through pensions, since these priests were left without support by the anti-clerical laws passed by the previous government; (2) the promise not to close any more primary or secondary schools conducted by members of religious orders until the State itself can provide enough teachers; (3) the abolition of the Municipal Boundaries Law in order to give greater mobility to labor and to make the handling of unemployment less difficult; (4) the reform of the electoral law; (5) the possibility of a general amnesty for political offenders convicted before Nov. 19, 1933. Thus, while the program in particular directions is moderate, it nevertheless marks a distinct departure from that of the Left bloc which controlled the government of the Republic from April, 1931, to the Autumn of 1933.

The Supreme Court at Madrid in January reversed the decision of the court-martial at Palma, Majorca, which had in October acquitted five Americans, one a woman, accused of assaulting a civil guard, and sentenced four of the five to six months in jail, and released the fifth. Greatly disturbed, Ambassador Bowers de-

manded pardon for the prisoners, and finally, on Feb. 3, the Supreme Court complied. That the sensitiveness in the Balearic Islands concerning foreigners and the meticulous demands as to passports and other papers are attributable to military reasons seems clear. The islands are the key to the transport of troops to Africa, and, in part, to the control of the Western Mediterranean. Suspicions of a Franco-Spanish pact seem to be well grounded, and there has been much comment in connection with the development of the powerful new fortifications on Majorca, the principal island in the Balearic group. Now that the incident is satisfactorily settled, the effort to secure an increase in the American quota on Spanish wines may prove more successful.

Relations between Spain and the Vatican have been greatly improved as a result of the advent of the new government. During January the name

of Leandro Petro Pomerio was sent to the Vatican for approval as the first Ambassador of the republic to the Holy See.

PORTUGAL FOILS RED REVOLT

Events in Portugal have been moving slowly toward the establishment of a new order. Preparations for the election of a National Assembly are being made by Premier Salazar in accordance with the Constitution adopted last Spring. Meanwhile a Communist revolt, planned for Jan. 19, was promptly suppressed by the vigilance of the authorities. In Lisbon the police occupied the strategic points in the city shortly after midnight; railway stations, arsenals, factories and public buildings were carefully guarded, and suspected leaders were arrested. Sporadic attempts at violence in the country were promptly dealt with and a special court to try the leaders has been set up.

The Quest for Balkan Unity

By FREDERIC A. OGG

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THE opening weeks of 1934 were, as anticipated, significant in the annals of the Little Entente. The Economic Council recently created by the three allied States opened its first meeting at Prague on Jan. 9, under the presidency of Foreign Minister Benes of Czechoslovakia. Originally, the Entente had only a political purpose—defense of the newly established independence of the member States and concerted action in larger matters of international policy, especially in relation to the great powers. In

time, however, objectives of an economic nature were added, and in his opening address at the recent Prague meeting M. Benes described the main purpose of the Entente to be the building up of a new economic organization in Central Europe. After discussing improved rail, water and air transport between the three countries, unification of economic, trading and legal institutions, and the establishment of new organizations for industrial and agricultural cooperation, the Council adopted resolutions aimed to keep 50

per cent of the members' foreign trade for 1934 among themselves. Conclusions were also reached on a number of economic matters that had been in controversy.

The first regular Little Entente conference for the year was to have opened on Jan. 8, but on account of the political crisis in Rumania precipitated by the assassination of Prime Minister Duca, was postponed to Jan. 20.

On most subjects of discussion the Foreign Ministers of the three States found themselves in complete agreement: Rejection of the reforms of the League of Nations proposed by Premier Mussolini; rejection likewise of the Italian plan for reorganization of the Danube Basin, beginning with an Austro-Hungarian economic alliance; disinclination—despite urging from France—to recognize Soviet Russia, at all events until after terms and conditions should have been sounded out; and opposition to Hungary's incessant propaganda for revision of the peace treaties.

On other matters there was less harmony. Yugoslavia was more disposed to an understanding with Hitlerite Germany than were Czechoslovakia and Rumania; and although the most important act of the conference was the acceptance of a plan for a five-year Balkan pact of non-aggression, Yugoslavia, before concurring, was obliged to overcome weighty obstacles arising from her growing rapprochement with Bulgaria and the latter's instinctive dislike of any international agreement guaranteeing the territorial integrity of member States and thus perpetuating the "dismemberment" of Bulgaria.

The plan for a pact was drawn up at Geneva, shortly before the conference, by Foreign Ministers Titulescu of Rumania and Maximos of Greece,

the latter acting also for the government of Turkey. On Feb. 4 the text of the instrument was initialed at Belgrade by the Foreign Ministers of four States—Greece, Rumania, Yugoslavia and Turkey. Bulgaria was assured that the agreement was not in any way aimed at her, and was told that her adherence would be welcomed. Discussion of the matter by sovereigns and Foreign Ministers in the course of a four-day visit by King Boris to King Carol during the last week of January failed, however, to overcome the objections cherished at Sofia, where, indeed, bilateral pacts such as those lately entered into by Turkey with Greece, Yugoslavia and Rumania, are disliked as tending to force Bulgaria into accepting the *status quo*.

A GERMAN-POLISH PACT

Following discussions begun last November, a ten-year non-aggression pact between Germany and Poland was signed in Berlin on Jan. 26. Few expected so early a consummation, and hardly any recent international development stirred so much comment, especially in Central Europe.

The preamble of the treaty expresses the mutual desire of the two governments to "initiate through direct understandings a new phase in the political relations" between their countries. The pact, proceeding from the premise that peace between the two nations is "an essential prerequisite for the peace of Europe in general," declares the adjustment of all problems affecting their mutual relations through direct understandings to be the constant aim of the two powers. Should controversies arise which cannot be settled in this way, they will "take recourse to such other peaceful methods as may be at their disposal." In line with the prin-

ciples of the Briand-Kellogg Pact, an instrument to which specific allusion is made, Germany and Poland pledge themselves under no conditions to resort to force for settling such disputes. International obligations previously assumed toward other parties are not to be affected; nor "such questions as under international law are to be regarded as domestic questions of one or the other of the States." The agreement is to continue for ten years, and indefinitely thereafter unless terminated on six months' notice by one of the governments.

Little scrutiny of this remarkable agreement is required to discover that it carries more implications than its formal text discloses. In the first place, specification of a ten-year period may be taken—has indeed been construed in Berlin—as an index of the stability of German policy and of the Nazi régime generally. In the second place, the League of Nations is left entirely out of the picture, implying that Germany's withdrawal from Geneva is to be definite and permanent. In the third place, by leaning on the Briand-Kellogg Pact, the agreement is manifestly intended to document further Germany's oft-asserted devotion to peace. Finally, the pact in effect insures that in case of trouble with the powers over such matters as the proposed union with Austria, Germany will not find her situation made more difficult by a simultaneous dispute with Poland. The accord does not mention frontiers, and is certainly not expected by Poland to lead to any territorial losses on her part.

The two major countries in which the pact stirred most interest were France and Russia. As his last act as Foreign Minister in the Chauvemps Cabinet, Joseph Paul-Boncour issued a statement to the press on

Jan. 27 "rejoicing" at the signature of the agreement and pointing out that Poland's previous treaty engagements with France and commitments under the Covenant of the League, the Locarno treaty, and other great international documents were unaffected. That the tendency of Warsaw to rely less completely upon its French connections and of Germany to drive a wedge between the two allies causes misgivings at the Quai d'Orsay, admits, however, of no doubt.

In all consistency, Moscow was bound to give the pact its blessing. Foreign Commissar Litvinov has never wearied of declaring that his government welcomes every compact tending to assure the peace of the world. Besides, Russia herself has a non-aggression pact with Poland, dating from December, 1932. *Pravda*, however, doubtless voicing official sentiment, characterized the text of the agreement as vague and unsatisfactory, particularly on the score of Germany's willingness to accept existing territorial arrangements, and guardedly inquired whether, after all, the real purpose at Berlin might not be to isolate Poland and manoeuvre for frontier revision.

NEW POLISH CONSTITUTION

The new Polish Constitution, heralded by its sponsors as embodying the best fruits of the nation's political experience during the period of the republic, was laid before the Sejm in full meeting on Jan. 26 and quickly approved. The new instrument ends what has been called "Sejmocracy" and substitutes a scheme of strong executive government. That a plan which had been in preparation for three years should have been adopted in hardly as many hours could be explained, however, only by the fact that at the last it triumphed by default.

The Constitution of 1921 was curiously vague on the subject of amendment, and when the government's project reached the floor of the Sejm, opposition elements maintained that an amendment, and therefore a new Constitution, could be adopted only by a two-thirds majority of the Sejm and the Senate after three readings. The government, on the contrary, held that action by the Sejm was sufficient. Having stated their case, the Opposition groups left the Chamber. Deputy Speaker Car thereupon ruled the committee draft a formal bill, and a house consisting of only government supporters rushed the measure unanimously through three readings in a single sitting. (For an outline of the new Constitution, see February CURRENT HISTORY, page 622.)

Most of the changes centre on the increase of powers of the President of the republic. A parliament of two houses survives, but not "parliamentary democracy" in the usual meaning of the term. In presenting the plan, M. Car, indeed, frankly explained it in terms of Marshal Pilsudski's opinion that parliamentary democracy is "an obsolete form of government."

RUMANIAN PARTY POLITICS

The crisis precipitated in Rumania by the assassination of Prime Minister Ion Duca by a member of the Fascist, anti-Semitic Iron Guard on Dec. 29 continued for two weeks. The Liberal party, whose smashing electoral victory only a week before M. Duca's death won it some 300 seats in a Chamber of 387, remained in full control of the parliamentary situation. Difficulty was encountered, however, in arranging for the succession to the murdered Premier. Rifts have developed in the party ranks, and the towering problem, not only of how to curb the Iron Guard and similar dis-

turbors of the peace, but of what to do with the thousands of persons arrested when M. Duca was killed, has remained largely unsolved.

Upon M. Duca's death, King Carol designated Dr. Constantine Angelescu, Minister of Education, as Premier, only to discover that the appointee was almost universally considered too easy-going to deal successfully with the critical situation in the country. So dissatisfied, indeed, was Foreign Minister Titulescu, who was vacationing in Switzerland at the time, that he not only refused to return to Bucharest but indicated that he would not continue in office. France, Rumania's principal ally, was likewise reported to be by no means pleased. Accordingly, a Ministry intended to be only a stop-gap, but certainly expected to endure for some weeks, was induced, on Jan. 3 to resign.

The King then turned to George Tatarescu, secretary of the dominant party and Minister of Commerce in the Duca government. Though but recently risen from obscurity, he is already known throughout the country for his vigor and decisiveness, political skill, brilliant oratory and personal charm. A new Ministry was projected, differing but slightly in personnel from those of Duca and Angelescu, and but for one circumstance it would have been ready to take the oath of office as early as Jan. 5. The obstacle was the continued hesitation of M. Titulescu to remain at the Foreign Office.

Undoubtedly M. Titulescu approved of the selection of Tatarescu as Prime Minister; in fact, he probably had a good deal to do with it. Yet, upon his return to the capital, he conferred repeatedly with the King, insisting that unless law and order were fully restored in the country, he would prefer to return to his old post as Minister

to London. His positive demands, which he declared were those not only of himself but also of France, included the dismissal of the King's personal secretary, regarded as a leading spirit in the Court Camarilla, and three other high functionaries, among them the War Minister and the Chief of State police. Grudgingly, the Sovereign gave his promise, and on Jan. 10 M. Titulescu accepted the portfolio awaiting him. Thereupon, the new Ministry, pledged to efface the civil anarchy and to carry out the program of the recent Duca Government, was sworn in.

Premier Tatarescu represents, as do most of his colleagues, the younger element in the Liberal party which enjoys the favor of the King. But there is also an older element, represented by Titulescu and associated particularly with the traditions of the Bratianu family. When an official leader for the party was selected to succeed M. Duca, the older wing saw to it that the choice fell not upon Tatarescu, but upon Dino Bratianu, brother of two former Rumanian Premiers, son of a third, and oldest surviving member of the famous "dynasty." King Carol would have preferred almost any one else. It was the Bratianu brothers who exiled him years ago, and he has never forgiven them.

Meanwhile, relations between the King and his imperious Foreign Minister continued strained. Some of the removals upon which the latter had insisted were not actually made, and the evasions with which renewed demands were met were, at the date of writing, adding to the tenseness of a situation considered by observers to be not far from the breaking point.

KING ALEXANDER IN CROATIA

As a conciliatory gesture toward the disaffected Croats, King Alex-

ander and Queen Marie of Yugoslavia recently spent a full month at Zagreb, returning to Belgrade on Jan. 11. Earlier visits of royalty to the old Croat capital have been few and brief, but on the present occasion the movement for Balkan pacification which was expected shortly to assume concrete form seemed to call for special effort to appease Croatian discontent and perhaps pave the way for political reconciliation. Mingling freely with the people in the streets, contributing from his privy purse to the relief of the city's poor, receiving scores of local deputations, and taking an active part in rehabilitating a hard-pressed Union of Cooperative Societies, the monarch infused increased cordiality and confidence into his relations with his Croat subjects. After his departure hope was widely expressed that in the more favorable atmosphere thus created some serious attempt would be made to settle the long-standing Croatian problem. Talk of genuine provincial autonomy was revived, and opinion grew that the King, with whom rests the final word in this, as in all other matters, was no longer wholly unsympathetic.

AGRARIAN DISCONTENT IN BULGARIA

Bulgaria's Minister of Industry and Commerce, Dimitar Guitchev, admitted in a recent press interview that his Agrarian party was demoralized, disillusioned and well-nigh powerless. M. Guitchev rose suddenly from obscurity to the leadership of his party nearly seven years ago, and has been regarded as one of the strongest personalities in the present coalition Cabinet. He testified, however, that the exigencies of the economic crisis have made it impossible for the government to carry out the reforms expected of it, and that the

elements among which the bitterest dissatisfaction exists are the peasants—a most important element, too, inasmuch as Bulgaria is pre-eminently a peasant country. The leadership of M. Guitchev is endangered, although to date no one has arisen who, in the estimation of the peasant rank and file, promises anything better. Meanwhile, the leader himself is significantly advocating a “controlled democracy,” or “authoritarian” government, on the ground that the masses have not proved able to create a peasant government capable of managing their affairs successfully.

THE CASE OF SAMUEL INSULL

The American press throughout January carried many foreign dispatches—many of them speculative, and even imaginative—concerning the question of what was going to happen to Samuel Insull after the expiration, at the end of the month, of the police

permit on which he had enjoyed refuge in Greece since 1932. About the middle of January an appeal was lodged with the Greek Supreme State Council praying that the deportation edict of the Department of the Interior be set aside.

The Council on Jan. 24 handed down a curiously worded decision in which it seemed now to claim and yet again to disclaim jurisdiction, but with the final result of leaving matters where they had been. From that time forth, it was manifest that the only circumstance that could prevent the decree from being carried out was the former magnate's physical condition. Meanwhile, with a view to facilitating Mr. Insull's departure from Greek soil, which was expected to lead in turn to extradition from any country to which he might go, the State Department at Washington on Feb. 1 rescinded the cancellation of his passport, making it valid for travel anywhere.

Nazi Ambitions in the Baltic

By RALPH THOMPSON

BEFORE National Socialism came into power in Germany, a cardinal point of its foreign policy was “Eastern expansion,” to a degree never precisely limited. In recent months there has been continued activity of a sort to show that these pre-election promises of the Hitlerites were not simply promises, and consequently Estonia, Finland, Latvia and Lithuania—as well as Poland and the great Union of Socialist Soviet Republics itself—have been especially concerned with the effect of the propaganda reputed to stem from the Wilhelmstrasse.

Early in January a report from Helsinki indicated that Russia and Poland had discussed informally the possibility of guaranteeing the safety of Finland and the Baltic States, and had sounded out the beneficiaries under the guarantee. Finland is said to have refused consent to such insurance on the ground that her non-aggression pact with Russia is a sufficient basis for friendly relations. Estonia and Latvia, however, are reported to have agreed in principle. Lithuania is said also to favor the scheme, though she has had no diplo-

matic relations with Poland since the Poles occupied Vilna, and hence is hardly in a position to give a direct answer to the question. Yet the proposed pact would be a guarantee against future Polish aggression as well as a safeguard against whatever dangers threaten from Germany.

Newspapers in Moscow, Warsaw, Berlin and Paris have become greatly interested in the negotiations, although confirmation from either Russia or Poland has not been forthcoming, and despite the fact that certain official publications in the latter two nations labeled the reports as "inexact." *Le Temps* (Paris) remarked on Jan. 8 that "German activity in the Baltic countries has taken such a turn that it will bear constant scrutiny," and that "without doubt certain elements in these States are acting on orders from Berlin." A dispatch from Kaunas dated Jan. 20 indicated that French opinion would support a four-power Baltic bloc if the Russo-Polish guarantee proved abortive.

Regardless of the sharpness with which hostile voices have been raised upon signs of Nazi penetration to the east, therefore, that penetration seems to persist—and to arouse increasing objection. Foreign Minister Salnais of Latvia nearly lost his post late last December because he appeared to hesitate in expelling two so-called Hitlerite agents from the country—and in fact did submit his resignation after receiving a half-hearted vote of confidence from the Latvian Parliament. Prime Minister Blodnieks, however, refused to accept the resignation. Further evidence of the fear of Germany may be seen in the fact that on Jan. 9 Latvian police arrested several Nazi organizers and claimed to have uncovered a "great Hitlerite organization" which was spreading

its literature among the population and insinuating itself into Latvian societies of various kinds.

FINLAND'S WAR DEBT

The American reaction to Finland's care in meeting payments under the war-debt agreement has been a peculiar one, and apparently will secure for her certain concessions from the United States which she might not otherwise have obtained. Rumors from Washington during January indicated that President Roosevelt would ask Congress to acknowledge Finland's conscientiousness by reducing either the principal of her debt, which amounts to some \$9,000,000, or the interest rate, which stands at 3.31 per cent, and is as high as that imposed on any debtor nation. There was also talk of the conclusion of a favorable commercial treaty between Finland and the United States.

On the other hand, Finland's friendly commercial relations with Germany seem to be over—for the time being, at least. Berlin denounced the Finno-German trade treaty late last October, and on Jan. 1 the Helsinki Cabinet marked the termination of the pact by raising the import duties on many goods coming from Germany and certain other countries. A few days later the government of the Reich forbade the import of Finnish eggs and dairy products, and on Jan. 9 President Svinhufvud retaliated by signing a decree which places an embargo on German farm produce, textiles, motor cars and certain other materials. Thus a veritable trade war between the two nations has begun, and some observers profess to see in the inhospitable gestures the first fruits of the recent Anglo-Finnish trade agreement, signed in Helsinki on Sept. 29, 1933, and

passed by the Finnish Diet on Nov. 10. There seems to be little doubt that recent anti-Nazi activity in Finland, a country ordinarily extremely friendly toward Germany, has annoyed the Reich, and it is evident that the pro-British orientation of the Baltic States is also looked upon with disfavor by the German Government.

LABOR GAINS IN NORWAY

As a consequence of the remarkable gains made by the Norwegian Labor party in the Parliamentary elections last October, Johann Nygaardsvold, its leader, was elected Speaker of the Storting by a large majority. Nygaardsvold is the first Labor leader to occupy this position, although Christopher Hornsrud, prominent Laborite and former Premier, was Vice Speaker in the Parliament just terminated.

Johann L. Mowinckel, leader of the Radical party and Premier since March, 1933, has remained in office despite prophecies that his govern-

ment would fall. It is believed that he will resign only on an unmistakable vote of no-confidence, which may be forthcoming if the Labor party produces a program which appears feasible to the Storting. At present the proposals of the Labor party include expenditures of 140,000,000 kroner on relief schemes (currently \$35,000,000), while Mowinckel's figures for the same purposes are 75 per cent less. The Labor party further advocates State guarantees on all bank deposits and an expansion of credit through the issuance of short-term Treasury bills which would rank with cash in the Bank of Norway. As for its more radical tenets, such as complete dominance by the workers in the nation and a thoroughgoing redistribution of wealth, these apparently will be shelved in the interest of harmony, lest a coalition of bourgeois parties once more arise and defeat even the diluted ambitions of those who advocate a socialistic economy.

Soviet Rule by Party Machine

By EDGAR S. FURNISS

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THE All-Union Congress, which represents the final authority in the Communist Party and therefore in the Soviet Union, convened in Moscow on Jan. 26 with over 2,000 delegates from all parts of the country in attendance. This body, which in violation of the constitutional requirement of biennial sessions had not met since the Summer of 1930, is entitled to an accounting of the past activities and the future plans of the party chiefs, and has power to ratify or repudiate these acts and programs. Be-

fore disbanding it selects a new Central Executive Committee to wield the sovereign power within the party during the next two years, and leaves to the committee the designation of ten of its number to constitute the Political Bureau, the party organ which dominates the official Soviet government, and the election of the next General Secretary of the party, the position now held by Joseph Stalin.

Theoretically, then, the meeting of the congress is an event of great importance to the party leaders and the

Soviet Government. In past years there have been occasions when the congress presented real opposition to the Communist officials and subjected their policy to vigorous criticism, but this year the outcome of its deliberations was a foregone conclusion. The congress met to applaud and ratify, not to criticize and amend, the program of the party leaders, and to reelect these leaders rather than to make changes among them. This unanimity of opinion resulted, in part, from the drastic revision of party membership which had been going on during the past year.

At the beginning of 1933, the party contained approximately 2,000,000 full members and somewhat more than 1,000,000 probationers. Before the year ended, however, 270,000 members and 250,000 probationers had been expelled; 200,000 members had been reduced to the grade of probationer; and 210,000 probationers had been degraded to the newly created category of "sympathizers." The delegates to the Congress were selected, therefore, by a party membership which was completely in accord with the leaders.

The unquestioned success of the Communist program for 1933 was another important reason for the harmony which prevailed within the party councils. The entire country has been thrilled by the triumph of Soviet diplomacy in international affairs, particularly Litvinov's achievement in winning American recognition. Moreover, the Soviet Government dramatically displayed the success of its domestic policy by publishing only a few days before the meeting of the congress the official grain statistics for 1933, which showed that the harvest had set an all-time record for Russia, exceeding by nearly 10,000,000 tons the bumper crop of 1913.

Although the deliberations of the congress this year were largely perfunctory, the meeting was not devoid of significance. For one thing, it gave Joseph Stalin an opportunity, on Jan. 26, to make one of his rare public statements of Communist theory and policy which serve better than any other source of information to interpret the Soviet Union to the outside world. But the really important activity of the congress was concerned with another matter which heretofore has received little publicity—namely, a thoroughgoing reorganization of the Communist party and the creation of a new relationship between the party and the government.

Previously the party has not been officially connected with the organs of the Soviet Government. The party leaders, to be sure, have always dominated the governmental structure, certainly in its central, if not always in its local, units. For some time past this relationship has been recognized by having Stalin, as party chief, countersign decrees promulgated by Molotov, the Soviet Premier, but it has been extra-legal. According to the Soviet Constitution, the government of the State has no organic connection with the actual dictatorship of the country in the persons of the high officials of the party. Now a revision of the Constitution is proposed which will make party and governmental authority identical.

The plan embodying this change was prepared by L. M. Kaganovich, chief lieutenant of Joseph Stalin in the Political Bureau. Two new committees of control are to be created, attached respectively to the Central Executive Committee of the party and the Council of Commissars, the highest organ of the Soviet Government. The word "control" is used advisedly, for the new committees are intended

to have authority in party and government to select officials and shape policy. The committees are to be elected by, and to be responsible to, the Communist Congress, thus establishing the party in a position of final authority not only over its own officers but over the personnel of the government as well. Governmental offices will be staffed only with loyal Communists, although at present, while the party represents only a small fraction of the people, the central government will be affected first, while the subordinate posts are filled from the ranks of the newly created "sympathizers." If the party is expanded, as proposed, until it embraces a majority of the people—in itself a radical departure from former Communist practice—the fusion of Soviet officialdom and party membership would eventually be completed.

The plan goes further than the legal subordination of the agencies of the State to the sovereign organ of the Communist party, for it proposes a realignment of central and local units, both in the party and in the government, so as to centralize authority completely. Heretofore the smallest local party unit, the "cell," has been controlled only remotely by the national leaders, and in local affairs democratically elected party committees have had a good deal of autonomy in shaping policy. The weakness of this system was disclosed three years ago when the local committees, getting out of hand, precipitated a nation-wide "slaughter campaign" by the peasantry through their excesses in connection with the collectivist program. The extent of this calamity was revealed in the figures submitted by Stalin to the congress, which show that Russia's supply of live stock is still less than half of what it was before the peasant revolt. More

recent examples of the same weakness were given by the separatist movement in the Ukraine and the disloyalty of the local party leaders in South Russia and the Caucasus. The new plan proposes to forestall any future disruption within the party by wiping out all local authority and giving complete power to the national leaders. The cell and the local committee are to be abolished, and the newly created control committee will dominate the localities through agents of its own choosing.

Similar centralization will be carried out in the structure of the Soviet Government. Formerly, the Council of Commissars through its various sections maintained a considerable degree of control over the local governmental agencies. But each locality had an elected organization responsible to the local constituency, which might display a certain amount of independence in interpreting and administering the decrees of the central authority, thus producing wide divergences of policy in different regions. These elements of local autonomy are now to be abolished and the control committee attached to the Council of Commissars is to function locally through its own agents. With government and party united at the top, the small group of men who control the nation's destinies will be able to maintain discipline throughout the entire country.

Aside from these questions of governmental reorganization, the All-Union Congress of the party considered two groups of problems—the provisions of the Second Five-Year-Plan and the state of the nation in foreign affairs. The details of the Five-Year Plan were announced on Dec. 30 in time to receive thorough publicity before the congress convened. (See February CURRENT HISTORY, page

630.) It is significant that the whole program was presented to the congress as an effort to raise the level of comfort within the country rather than, as was the case with the preceding plan, to promote the industrial self-sufficiency of the nation.

The entire system of rationing food and manufactured goods, it was promised, would be abolished within the near future. Commercial stores open to all citizens are to take the place of the existing closed shops which are available only to those who hold ration cards, and the open competitive market for food supplies is to be allowed free development. Already the abundance of cereal grains has made it possible to remove the ration restrictions in many regions. And the proposal to turn the major part of the government's new investment into the industries producing household articles and into the transportation system forecasts a similar relief of privation with regard to other necessities of life.

A scheme of wage payment which marks a complete break with the Communist doctrine of equality of income was also presented to the congress. Some departure from this doctrine has already been made. It is now proposed to abandon all pretense of equality of wages and to give greatly increased monetary rewards to the superior grades of workmen. The system, as outlined in *Pravda* on Jan. 4, appears to the foreign observer not much different from the wage system of capitalist industry.

The foreign affairs of the Soviet Union were discussed at length by Stalin and by subsequent speakers. The former disclosed nothing new regarding Russia's foreign policy, but his reference to Germany placed a slightly different construction on recent developments in this sector of

international affairs. He denied that antagonism toward Germany had caused the Union to discard its policy on revision of the Versailles treaty or, indeed, that it had in any respect changed its policy toward Germany. Whatever change had occurred in the situation he attributed solely to an alteration of policy by the Germans themselves, implying that the Union would be found receptive to any sincere effort made by the German Government to re-establish cordial relations.

The danger spot in Soviet foreign relations, as stated emphatically by Stalin and other speakers, lies in the Far East. Nevertheless, there have been indications recently that the tension between Japan and Russia was lessening. When, on Jan. 14, Manchukuo agreed to release the six Soviet officials of the Chinese Eastern Railway, who were arrested in September, and the Union at once expressed willingness to resume negotiations with Japan for the sale of the railroad, it was expected that the attitude on both sides would grow more conciliatory. But the incident did not have this effect, at least as far as Russian opinion was concerned. During the last two weeks of January a number of high officials in the Soviet Union, L. M. Kaganovich and I. V. Kossior, as well as Stalin, stated publicly that war with Japan seemed inevitable and that the Union was actively preparing for it. Military preparations on the Siberian frontier, in the form of fortifications and the concentration of troops and supplies, were described in detail, and it was admitted that Vladivostok was being supplied for war, especially with aircraft. These statements may be characterized as propaganda for domestic consumption, but it cannot be denied that they have an ominous tone.

Turkey's Five-Year Plan

By ROBERT L. BAKER

THE Turkish Council of Ministers formally announced the adoption of a five-year industrial plan on Jan. 9. A brief description of the scheme, based on the preliminary discussions, was given here last month. According to the final decision, fifteen factories are to be built, twelve of them wholly by the government. The remaining three, which will be textile mills, will be left to private enterprise. Nearly all these plants are to be established in Anatolia, and in places that are comparatively safe from invasion.

In setting out on this industrial program the Turks have undoubtedly been influenced in part by the example of Soviet Russia. The recommendations of the group of American experts under General Walker D. Hines, which has been studying the country's resources and prospects since last May, must likewise have encouraged the government to take a more active rôle in the development of industry. It must be added, however, that the Turkish Government had already shown a decided bent in the direction of State-owned and State-controlled industries. Most of the railways, the extensive system of monopolies, coastal shipping, mines, sugar mills and factories of many kinds were in government hands before the arrival of the Hines commission.

Some of the elements of the Soviet industrial drive are already appearing in Turkey. In mid-January the Ankara Government ordered the nation to bed early so that it would have plenty of energy to carry out the five-year plan.

Theatres were required to close at 11 P. M. and trolley and ferry traffic to stop at 11:30. These regulations were to be observed even during the festive month of Ramadan, when Moslems fast by day and eat only between sunset and sunrise.

In order to raise money for the establishment of factories under the plan, new taxes and an increase in the income tax schedules, which are already high, are expected, as well as internal loans, along the lines of the successful one floated last year.

Though the reforms most necessary to Turkey's Westernization have already been undertaken, others are constantly being put into effect. On Jan. 1, for example, the use of the metric system was made obligatory throughout the country. It will take some time, of course, for the Anatolian peasants to become accustomed to metric weights and measures, but under Mustapha Kemal they are used to learning new and arbitrary things quickly. After some initial confusion the change should be of considerable benefit to commerce.

Another reform of importance appears imminent. Family names have almost disappeared in Turkey, and at present most Turks are known by one name only. The government has decided that there are too many Mahmuds, Alis, Ahmets and Mustaphas who are indistinguishable from one another on police and government records. Before long, it is believed, Ankara will require all persons to assume or adopt family names.

Since Turkey had not yet concluded an extradition treaty with the United States, Samuel Insull appears to have hoped to find refuge there after leaving Greece, but on Jan. 15 Shukru Kaya Bey, the Turkish Minister of the Interior, instructed the Police Department not to allow Insull to enter the country. In spite of this the fugitive utilities magnate seems to have hoped for a haven in Turkey. An Istanbul newspaper on Jan. 31 stated that two Greek representatives of Insull had arrived with an offer to invest \$15,000,000 in the new five-year industrial plan in return for a permanent refuge in Turkey. On Feb. 5, however, the United States Senate ratified an extradition treaty with Turkey which includes the offenses on which Insull has been indicted in America. The treaty now lacks only formal promulgation to become effective. In any case the Turkish avenue of escape for Insull seems definitely closed.

DEMONSTRATIONS IN PALESTINE

The Palestine Government appears to have taken, temporarily at least, a hint from Mahatma Gandhi's methods, by adopting a policy of non-resistance toward Arab demonstrations. In December the Arab Executive announced that demonstrations would be held throughout Palestine on Jan. 17, the date of the feast of Bairam, to protest against Jewish immigration and purchase of lands and against British rule. As all such gatherings had been strictly forbidden by the authorities, it was feared that the scenes of October, when there were riots and bloodshed in various places, would be repeated. On Jan. 16, however, the government announced that demonstrations would be permitted in Jerusalem, Jaffa, Haifa, Nablus and Tulkarm, but on condition that the

processions should take place between 7 and 8 A. M., and only along prescribed routes. No sticks or firearms were to be carried, and there were to be no speeches or music.

The Arab Executive hastened to give wide publicity to the government's concession, hailing it as a victory for the Arab cause, and urged all Arabs to participate. The demonstrations were held as scheduled, but the numbers attending fell far below the expectations of the Arab leaders. The marchers carried banners condemning the mandate and Zionism and shouted defiance, but they committed no acts of violence. In each place a proclamation setting forth the Arab grievances was read. Though few police were to be seen, the authorities were in readiness to deal with any emergency, holding mobile forces in their barracks ready for instant action.

By permitting the demonstrations, the government not only incensed the Jewish community, who charged favoritism, but lost some prestige among the Arabs, who attributed its action to weakness. The Arabs are, moreover, in position to claim that if the government had not interfered last October there would have been no bloodshed.

It becomes increasingly apparent that those responsible for the administration of the mandate are guided by considerations of expediency. Nor is this a cause for wonder, or for serious criticism, since the British Government itself has never been able to formulate a clear-cut and in practice unambiguous policy in regard to Palestine. The Balfour note of 1917, which promised the establishment of a Jewish national home in Palestine, has been interpreted and reinterpreted, but after sixteen years neither Jew nor Arab nor High Commissioner

knows where he stands. On the one hand, Great Britain is under obligation to fulfill the commitments of the Balfour note; on the other hand, she is under obligation to administer Palestine as a Class "A" mandate, that is, to tutor the country in the direction of ultimate self-government, as was done in the case of the former "A" mandate of Iraq. In practice these two aims have proved incompatible, and it is scarcely an exaggeration to say that the objective of self-government is even further from realization today than it was in 1922 when Britain assumed the mandate. Some change in the status of Palestine seems imperative. In England there is a growing sentiment in favor of returning the mandate to the League, but offering, at the same time, to reaccept Palestine for administration as an integral part of the British Empire.

EGYPTIAN AFFAIRS

When Premier Sidky Pasha, the Strong Man of Egypt, was replaced last Fall by Yehia Pasha, a Premier with hardly any following in Parliament, it was freely predicted that Egypt would witness great political changes before the Winter was over. These views have not been borne out. There have been the usual excited debates in the Chamber of Deputies, and the usual attacks on the government for its inaction have been made by the press and by individuals. But there is always political excitement in the country in Winter. The Egyptian press thrives on political news and is adept at manufacturing and exaggerating issues, scandals and feuds. To be sure the Winter is not yet over, but it is well advanced, and from present signs the Cabinet of Yehia Pasha may hope

to survive the current Parliamentary session and with it the immediate danger of fall.

Ex-Premier Sidky Pasha remains a power to be reckoned with in Parliament. After announcing his withdrawal from politics and his resignation from the Chamber on Dec. 7, he changed his mind and dramatically withdrew his resignation on Dec. 18. The government, which had left no stone unturned in its efforts to drive Sidky out of political life, was taken aback. Sidky is not as strong as he once was, because he no longer has the power to dispense patronage, but his personal influence remains considerable, and the possibility of his taking an active rôle against the government in the Chamber haunts the present Cabinet.

King Fuad, who greatly extended his control over the government during Sidky's illness last year, has taken another step in the same direction. On Jan. 27 he issued a royal rescript requiring all Cabinet Ministers to swear an oath of allegiance to the King and Constitution. This oath, already required of Senators and Deputies, was immediately administered to the members of the present Cabinet before witnesses and was recorded in writing. The Constitution which all Cabinets must swear to support is the one which Fuad proclaimed in a royal rescript in 1930, and which served greatly to increase the power of the Executive. The effect of the new oath has been relatively to strengthen the Crown and aristocratic parties and to weaken the Wafd Nationalists still further. The Wafd is still bitterly hostile to the new Constitution, and no Wafd Ministry can now assume power without swallowing its scruples in this respect.

America and Japanese Aims

By TYLER DENNETT

Professor of International Relations, Princeton University

WHILE the relations between Japan and Russia during January remained the most acute phase of the Far Eastern question, both Japan and the United States, by the reassertion of opposing policies, brought again into sharp relief the potential conflict in the Pacific.

Dr. Stanley K. Hornbeck, Chief of the Division of Far Eastern Affairs in the State Department, ventured the private opinion in an address on Jan. 18, before the Ninth Conference on the Cause and Cure of War, that "in regard to all parts of the Far East, the American people have viewed with disapproval tendencies—where manifested—toward imperialistic angling in troubled waters. Also, they naturally have assumed that they themselves have there as elsewhere certain rights and in connection with them certain obligations." In Japan these words were interpreted as indicating that the American people, and, presumably, the American Government, continue to regard with disapproval the tendency of Japan to make use of the disorder in China for purposes of Japanese imperialism.

Dr. Hornbeck followed this statement with a review of the history of the twin doctrines of the Open Door and the integrity of China, and pointed out that the Nine-Power Treaty of 1922 contained "a solemnly concluded multilateral pledge on the part of the United States and (now) thirteen other powers to respect China's integrity, to foster the prin-

ciple of equality of commercial opportunity in China, and to practice self-denial and self-restraint in relations with China." The context of this sentence made it reasonably plain that Japan was being reminded that she had not respected this pledge. While the foregoing statements were unwelcome in Tokyo, the greatest resentment was directed against Dr. Hornbeck's remark that the American doctrine of non-recognition which had been elaborated, although not originated, by Secretary of State Stimson on Jan. 7, 1932, had been adopted also by the League of Nations. "Evidence in the field of action during the past year," stated Dr. Hornbeck, "indicates that both the United States and the members of the League are acting * * * in conformity with the non-recognition formula."

In conclusion Dr. Hornbeck suggested that, while the American Government is opposed to "commitments involving, or tending to involve, the United States" in conflicts in which its rights, obligations and interests are not at stake, it is equally the policy of the United States "to prevent or combat unlawful use of force by others when the latter imminently imperils the lives and legitimate interests of American nationals or the integrity of American soil" by the employment, where necessary, of military force.

As cabled to Japan the Hornbeck address coupled the words "non-recognition" with "government made by the sword." The latter phrase, which

is obviously a slightly more pointed description of Japanese action in Manchuria, does not appear in the mimeographed text of the address as given out by the Department of State. The text of the address was released to the morning papers of Jan. 19, the day following the publication of a copyrighted Associated Press dispatch from Hsinching (Changchun) in which Henry Pu-yi, Emperor-to-be of Manchukuo, pleaded for American recognition of his country. The Japanese Foreign Office on Jan. 20, promptly announced that the "boy Emperor" would be enthroned on March 1, and at the same time hotly resented Dr. Hornbeck's address as "most regrettable at this particular moment, when the Japanese authorities are exerting their utmost efforts for the promotion of friendship between Japan and America." The Foreign Office spokesman added: "Hornbeck's utterances convey the impression of willfully ignoring the existence of a great power bearing responsibilities for the maintenance of peace in Eastern Asia. It should not be forgotten that the Empire of Japan exists in the Far East as much as does the United States on the continent of America."

Three days later, on Jan. 23, Foreign Minister Koki Hirota, while making no direct reference to the Hornbeck address which had asserted that the American Government has "certain rights" and duties in the Far East, declared before the Japanese Diet: "We should not forget that Japan, serving as only a cornerstone for the edifice of peace in Eastern Asia, bears the entire burden of responsibilities." Mark the adjective "entire." Mr. Hirota insisted that no insoluble difficulties exist between Japan and the United States and that Japan is not "picking a quarrel with

America," but added: "I am confident that the United States will not fail to appraise correctly Japan's position in Eastern Asia." What do such words mean if not that Japan now claims in Eastern Asia a position which was not recognized in the Nine-Power Treaty and which Dr. Hornbeck believes to be still unrecognized, but for which Japan, if crowded, will fight?

The exchanges between Japan and the United States during the month did not stop with Dr. Hornbeck's address and Mr. Hirota's reply. The Commander-in-Chief of the Japanese Navy, Vice Admiral Nobumasa Suetsugu, wrote in the February issue of *King*, a magazine with one of the largest circulations in Japan, that the United States has no need for the greatest navy in the world, that it menaces other nations, and is contrary to the principles of the Kellogg pact. Following several days of debate in the Japanese Diet on naval policy, Admiral Osumi, Minister of the Navy, disclosed on June 31 that the Japanese naval program, for which appropriations are included in the 1934-35 budget, will at the end of 1936 bring Japanese ratios up as follows: Total navy, including over-age tonnage, 68 per cent; total navy, excluding over-age tonnage, 81 per cent; total auxiliaries (cruisers, destroyers, submarines), including over-age, 78 per cent, and total auxiliaries, excluding over-age, 100 per cent. He predicted that in destroyers and submarines, categories not now included in the naval limitation treaties, Japan would have ratios to the United States of 156 and 162 per cent, respectively.

In Washington, the day before the Osumi statement, the Vinson Naval Bill had easily passed the House with the prospect that it would also pass

the Senate and have President Roosevelt's approval. This bill is in addition to one already passed which authorizes a full "treaty navy" by 1939, and the greatest air force in the history of the American service. The effect will be not only to give the United States a "treaty navy," but a new navy as well. Thus, subject to the limitations of the existing naval limitation treaties, Japan and the United States are now starting upon a naval race.

In the Japanese House of Peers Kenkichi Yoshizawa, former Foreign Minister, declared on Jan. 31 that if the Japanese and American navies were to dictate the programs of their respective governments in the 1935 Naval Conference "a rupture would be inevitable, leading, if the pessimists' view is accepted, to intensified naval competition—even if war is averted." He questioned whether it would not be better to abandon the proposed naval conference unless preliminary negotiations showed the possibility of an agreement. Foreign Minister Hirota, not dissenting, is reported to have given "a general but vague concurrence" with Mr. Yoshizawa's views.

When Mr. Hirota, on Jan. 24, told the Diet that he was communicating with the American Government in an effort to solve the difficult problems which seem likely to arise two years hence, the American State Department promptly denied that it had yet received any "communication formal or informal" on the subject. While obviously not unwilling to listen to Japan, it was "authoritatively stated" that, whatever the nature of the Japanese communication, the United States will proceed with the naval construction program. It is thus clear that in restating American policy in the Far East by the adoption of a new naval

program, the Roosevelt administration is now taking a firmer tone than at any time since 1921-22 when Secretary Hughes, at the Washington Conference, did some plain speaking.

The United States is being faced in the Far East with the alternatives of acquiescence or opposition to Japan so vigorous as to become impressive. Japan has taken the position that the Chinese respect only military force. At the same time Japan has, by so lightly casting off the Nine-Power Treaty, revealed that it also cannot be bound by a political agreement which is disadvantageous. It would appear as if the Roosevelt administration has decided that the best way to deal with Japan is by a show of force, such as Japan has used in dealing with China, and is disclosing to Russia.

While Mr. Debuchi, former Japanese Ambassador in Washington, is now pleading with American business men in Japan to support the Japanese policy in Eastern Asia, on the ground that the United States is bound to share in any commercial profit the Japanese gain in Manchuria and China, his successor, Hiroshi Saito, is in Washington to make a preliminary survey of the diplomatic situation before returning to Japan to confer with the Foreign Office. Mr. Saito, the youngest Ambassador Japan has ever sent to Washington, knows America well, for he was Consul General in New York from 1923 to 1928, and has also served as *Chargé d'Affaires* in Washington. He is reported to have said that the best thing that could happen to Japanese-American questions would be for them to be left off the front page for the next two years. Something very contrary to that seems more probable.

General Araki, who was reported ill with pneumonia on Jan. 5, resigned as Minister of War on Jan. 22, and was

replaced by General Senjuro Hayashi. While at first General Araki's resignation was accepted by some observers as a sign of the waning prestige of the military, against which there has been an undercurrent of criticism for some time, it was quickly apparent that General Hayashi, if anything, is a more determined militarist than his predecessor. It may be, however, that the new War Minister will be content, as General Araki was not, to leave the direction of foreign affairs to Premier Saito and Foreign Minister Hirota. The latter in his formal statement to the Diet, so often referred to in this article, endorsed the essential points of the Araki foreign policy. At least it may be asserted that there does not yet exist in Japan any anti-military party with influence of the slightest importance.

JAPAN'S RUSSIAN RELATIONS

The Tokyo generals, speaking through Lieut. Col. Seiichi Aoki of the Press Bureau of the War Office, continue to talk about the "inevitability of a Russo-Japanese War." This was the title of an article by Colonel Aoki in the New Year's supplement of the magazine *Hinode*. He concludes: "While the Soviet Government apparently has no intention of raising a storm at present, the Communist party is continuing its activities behind the scenes and it is certain that there has been no change in the Soviet Far Eastern policy. There is no compromise possible between Japan's mission for the maintenance of peace in the Far East and the Soviet preparations. Until Russia renounces her secret activities we cannot say there will not be war. The 1936 crisis is approaching and nobody knows when Russia will show her teeth against our country. I hope the whole nation will show its determination."

Foreign Minister Hirota, in his formal address to the Diet on Jan. 23, was only a little less positive. While disclaiming aggressive designs in Siberia, he rebuked the Soviet Government for its criticisms of Japanese policy: "It is most surprising and regrettable that the Soviet Union should now take to broadcasting at home and abroad, through the press and other channels, unwarranted criticisms directed against Japan, and circulate exaggerated stories about aggravations of this and that situation, evidently for political and diplomatic purposes which such rumors are calculated to serve."

As a gesture of friendship the Manchurian authorities, so it was reported on Jan. 14, decided to release the six Russian railway officials who, in spite of Russian protests, had been held since September, 1933. Two days later the Russian Ambassador in Tokyo resumed conversations with Mr. Hirota about the sale of the Chinese Eastern Railway. This new effort of Japan to reach an agreement with Russia is interpreted by some observers as having been promoted by the progress of the American naval program. (For a discussion of Russo-Japanese relations, see the article by Dean Furniss on page 757.)

THE RULERS OF MANCHUKUO

When Henry Pu-yi is enthroned as Emperor of Manchukuo on March 1, in accordance with "the will of Heaven," the country will be renamed Ta Manchu Tikuo, meaning Great Empire of Manchu. The spokesman of the Japanese Legation in Peiping on Jan. 16 issued a formal statement that the enthronement of Pu-yi was not to be construed either as forecasting the restoration of the Ching dynasty in China or the beginning of encroachment on North China. On the other hand, Foreign Minister

Hirota in his address to the Diet, one week later, bluntly stated that "the maintenance of peace and order in North China is of special concern to Japan. She expects China to see to it that nothing will happen that may bring chaos to that area."

"Special concern"—the phrase has a long history and has acquired rather definite meaning in the Far East. It was often used in relation to Korea while the latter was independent, and in relation to Manchuria before the Japanese occupation. As for Manchuria at present, a special correspondent of the *New York Sun*, on Jan. 10, set down as "certainties" the following: (1) No Chinese in the present régime has final authority; (2) every department has as its active head a Japanese; (3) the Chinese officials in the central government constitute a phantom organization; (4) the present régime does not represent any articulate choice of the people, for there exist no means for independent expression of public opinion.

For many months there have been persistent rumors that French capital would soon be available for investment in Manchuria. These rumors are particularly significant in that the non-recognition doctrine will lose much of whatever force it now has if it proves possible for Japan to borrow money for Manchukuo in countries which are parties to the non-recognition doctrine. It was reported, without qualification, from Tokyo on Jan. 12, that a "Franco-Japanese consortium for the development of Manchuria" is ready for the signature of officials of the South Manchurian Railway and André d'Olivier, representative of the French National Association for Economic Expansion. Signature was delayed

pending the arrival from France of approval of the terms. The agreement contemplates very modest initial investments of French capital and looks principally toward supplying railway and construction material, but it is reported that French business interests in Paris are hesitant. Not only is the non-recognition principle involved, but also, probably, the Open Door. The agreement could not be concluded without the approval of the French Government, which voted for the League non-recognition resolution.

END OF FUKIEN REVOLT

The Fukien rebellion, which for a few weeks at the end of 1933 offered a definite challenge to Chiang Kai-shek's power in China, collapsed on Jan. 13, when a Nationalist naval landing party occupied Foochow as the once famous Nineteenth Route Army ignominiously withdrew, apparently without putting up a fight. The Nationalists advanced down the Min River from Yenping, which had been occupied on Jan. 6, to Shuikow, which fell three days later. The military operations appear to have been paralleled by negotiations with the rebels in which Mme. Chiang Kai-shek, Wellesley graduate, had a prominent part. It was currently rumored that for withdrawal the rebel leaders were paid \$6,000,000 (Mexican) by Nanking. Another factor in the Nationalist success was the help thrown into the scale, after the fall of Yenping, by a large volunteer neutral force in Southern Fukien. The stability of the Nationalist position was so quickly apparent that the small landing party of American marines at Foochow was withdrawn within a few days. General Chiang Kai-shek appears to have measurably increased his prestige.

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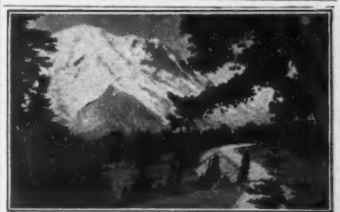
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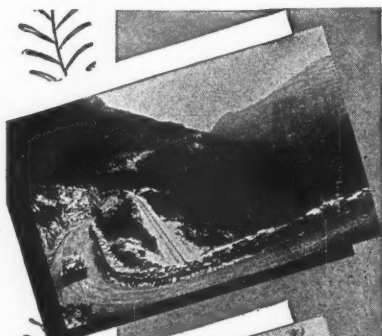
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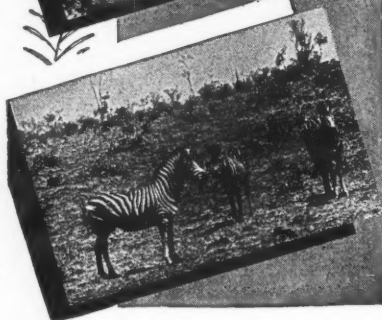
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Continued from Page VII

of the family, of which he has made full use. In the case of *George Lewes and George Eliot* (John Day), it was the genius of the woman that overshadowed the man, and it is Lewes who is brought into the foreground of the canvas of Anna Theresa Kitchel.

John Tasker Howard writes a carefully studied life of *Stephen Foster—America's Troubadour* (Crowell)—who may be described as the secular Sankey of the South—a songster who set "dear friends and gentle hearts" of the entire English-speaking world a-singing and finally entered Bellevue Hospital with 38 cents in his pocket. In *New Light on Longfellow* (Houghton Mifflin), James Taft Hatfield discusses the associations with Germany, so obvious in the poems which, despite all the superiorities of less-read bards and critics, continue to be for generation after generation a heritage of the race.

To a great composer at his centenary, we have the usual tributes. Robert Haven Schaufler unveils *The Unknown Brahms* (Dodd, Mead). William Murdoch, being himself a pianist, adds "an analytical study of the complete pianoforte works."

If any man has a right to appraise *Charles Dickens* (Doubleday, Doran)—whose child's Bible is now released—it is Stephen Leacock, and the appraisal is 100 per cent. Mr. Leacock is convinced that, despite the prejudice against humor, Dickens rises above the crowd as one of the supreme interpreters of life. It happens that we agree. As it seems to us, Dickens, like Thackeray, belongs on a different plane of genius from, let us say, Galsworthy, Shaw or Wells. In order to start something, let us suggest that the twentieth centurians are not in the same street as the nineteenth.

The struggle of a poet with what Tennyson called "indolent reviewers" is described by Clyde Kenneth Hyder in his elaborate treatise on *Swinburne's Literary Career and Fame* (Duke University Press), and, finally, we have new material from "the Wonderland." Evelyn M. Hatch edits *A Selection From the Letters of Lewis Carroll to His Child Friends* (Macmillan).

Men of action again greet us. Winston Churchill, following a now common custom, produces at last the first volume of his ancestral *Marlborough* (Scribner's), a great book, but, at the same time, an apology by no means devoid of special pleading, which, as we think, detracts from its value. Joseph Gurn fills in a page of United States history by his life of that Revolutionary hero and beloved seaman, *Commodore John Barry, Father of the American Navy* (P. J. Kenedy). The Civil War is fought over again by Major Gen. J. F. C. Fuller, who, as a military man, offers a study

of *Grant and Lee* (Scribner's), in which Lee comes in for criticism. He was a great character, a fine tactician, but too much of a God's gentleman to win a war which, perhaps, would not have been won by him in any case. To *Markie* (Harvard University Press) is the title of a volume, not perhaps of supreme interest, containing Lee's letters to Martha Custis Williams. After all, great men cannot always be mailing immortality in the notes that they scribble. By hereditary right every Dana is entitled to his biography, and to *Richard Henry Dana* (1851-1931) this tribute to a great Bostonian is paid by Bliss Perry (Houghton Mifflin).

Burton Rascoe is a Wagner who sees people as gods. First come the Titans and now the *Prometheans*, *Ancient and Modern* (Putnam's), in which lively procession we have nine celebrities—St. Mark modestly clearing the traffic for Theodore Dreiser, arm in arm with James Branch Cabell, in whom the pageant culminates. What delights us is the pleasure that the *Prometheans*—as they step out—must be finding in one another's company. But it may be that we are not quite as respectful as we ought to be to Mr. Rascoe, who is much more than a successful master of those ceremonies which on the stage would be known as revues.

Great Lives (Macmillan) continues to be an ever-lengthening series, and for series we have always cherished a school-buoyant enthusiasm. We like the look of these books on the shelves—such variety of genius within, yet all of them, as Thomas Jefferson would say, bound equal. *Haig* rubs shoulders with *Chopin*, *Nelson* with *Strindberg*, while *Napoleon III*—the Little, as Victor Hugo called him—learns for the first time that his life was great. These books are well written and produced. In any case we are partial to them.

When the War Came

THE OUTBREAK OF THE WAR, 1914. By E. F. Benson. New York: G. P. Putnam's Sons, 1934. \$1.50.

MASEFIELD in verse once sought to recapitulate some of England's placidity on the eve of the war; E. F. Benson now does the same thing in a delightful essay of reminiscence. Cricket, bridge, congenial house parties, a vacation on Capri, the festival at Bayreuth—these were some of the things that concerned Mr. Benson in July, 1914, when even those most interested in public affairs were preoccupied more with the crisis in Ireland than with the gathering storm in Eastern Europe. Peace and security prevailed in England; and at dinner parties, almost to the last, only men like "the famous Bore of Berkeley Square" pointed out to people whose "eyes wore a slightly glazed expression" that Europe was on the verge of a catastrophe. But "nobody was

Continued on Page XIV



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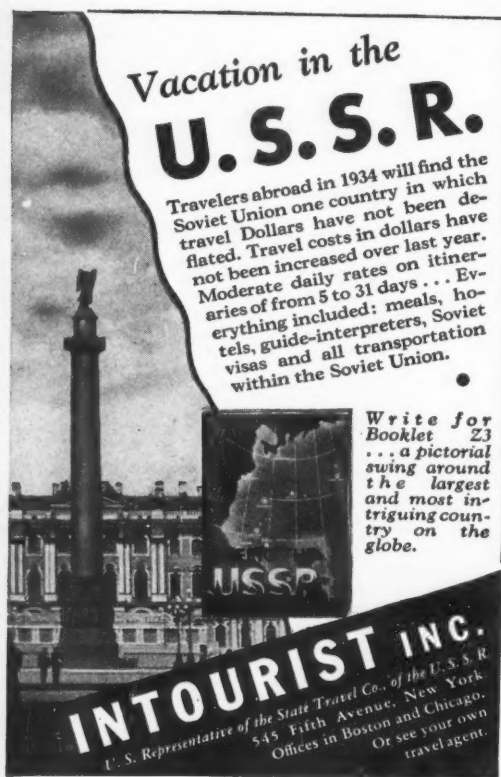
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Continued from Page XIII

interested, and our hostess looked this way and that in mute apology." Quickly the story gathers momentum; indifference disappears as the dispatches become more and more portentous; the festival at Bayreuth is forgotten along with cricket and country week-ends; and the whole ends with a stirring scene before Buckingham Palace at midnight on Aug. 4—the Empire is at war! Mr. Benson has skillfully portrayed his own carefree mood and that of his friends in the last days before Armageddon; because he has not woven in equally well the details of the crisis as it affected the statesmen and the diplomats, his little book lacks balance. Nevertheless, there is too much excitement, too much of the sense of impending doom for the reader to be distressed by any absence of unity in this volume, which is indeed a worthy member of the "Great Occasions" series.

E. FRANCIS BROWN.

A Life of Stephen Foster

STEPHEN FOSTER—AMERICA'S TROUBADOUR. By John Tasker Howard. New York: Thomas Y. Crowell Company, 1931. \$3.50.

THIS is not a book for every one who has hummed "Old Black Joe" or whistled "Old Folks at Home," but it is a serious and illuminating history of the man whose songs are close to the American heart. Mr. Howard has accumulated a great deal of material from one source or another—much of it new—and manages to present a full picture of his subject without drawing upon fancy or lapsing into fiction, as have earlier biographers of Foster. The footnote references are often strangely phrased, and certain of the bibliographies, catalogues and tables are a bit ponderous in a volume obviously intended for the general reading public, but the total effect of Mr. Howard's work is impressive. Because of its appearance, yet another figure of America's cultural past stands out more clearly than before from the shadows. Stephen Foster died in New York City in 1864, after a brief career which had not been without glory and recognition. Only now, seventy years later, is there available a capable and readable account of his life and works.

RALPH THOMPSON.

Honest Municipal Government

CITY MANAGEMENT: The Cincinnati Experiment. By Charles P. Taft. New York: Farrar & Rinehart, 1933. \$2.50.

THE dawn of 1934 found most of America's large cities either bankrupt or nearly so. Even such supposedly model city administrations as Cleveland and Milwaukee have been obliged to come down from their financial pedestals and sit in sackcloth and ashes. Of all our major cities, Cincinnati alone is completely solvent, and celebrated the New Year with a surplus of \$4,000,000 in its treasury. Nor have Cincinnati's problems been less serious than those elsewhere. How this unique victory has been achieved is the story told by Charles P. Taft. "Good government is not only possible," he says, "it pays." In proof

of this he points to the premium still commanded by Cincinnati bonds at a time when many cities cannot sell their bonds at any price. The reason, Mr. Taft finds, "is that our citizens have confidence in their public officials and know that none of their taxes goes into any politician's pocket for political services." Since Cincinnati's city management experiment has won this confidence, and since confidence is so lamentably absent elsewhere, Mr. Taft's book deserves to be widely studied.

ROBERT L. BAKER.

The End of the Empire

THE KAISER GOES: THE GENERALS REMAIN. By Theodor Plivier. Translated from the German by A. W. Wheen. New York: The Macmillan Company, 1933. \$2.

GERMANY'S revolutionary epic of October and November, 1918, has not found its Homer in Herr Plivier, but there emerges from the pages of his book, nevertheless, a fairly interesting narrative based on the happenings of those eventful days. Selecting some of his characters from life, others from his imagination, the author has attempted to show how the spirit of revolt crept from the hopeless trenches and the naval base at Kiel to the cities of the Fatherland, how the defection of war-sick soldiers and sailors weakened the government, and, finally, how, in the moment of triumph, Friedrich Ebert betrayed the German Revolution to the Generals and other representatives of the old régime. The effect of this story might have been electric, for the details themselves are the stuff of which great stories are woven. But Herr Plivier is heavy-footed and unsure; there is no nice understanding of dramatic effect, nor even expert handling of fact. That such a verdict is necessary is deplorable—for where else in our day has there been more magnificent matter for the art of the novelist than in the flight of the Hohenzollerns and the attempts of the Reich to establish a free State in fact as well as in word.

R. T.

Cleveland's Letters

LETTERS OF GROVER CLEVELAND, 1850-1908. Selected and Edited by Allan Nevins. Boston: Houghton Mifflin Company, 1933. \$5.

AS dull as a State paper of Grover Cleveland, is a saying too well known in America for any one to expect lightness or brilliancy in these letters. Yet there is a human quality in this very lack of sparkle. Brilliancy in letter-writing, unfortunately, is an attribute few possess; we therefore can find both consolation and sympathy in Cleveland's inability to be anything but homely in his correspondence. But as the letters selected by Professor Nevins testify, Cleveland, in his simplicity, honesty and courage, did not lack the qualities of greatness. His letters reveal the essential humility of the man, his tolerance, his tenderness and, occasionally, his humor. But, as the editor of the volume has

Continued on Page XVI

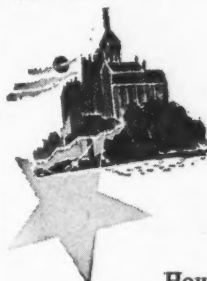
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Continued from Page XV

said, "it is for their disclosure of a steadfast heart, an unfaltering character, that the letters of Grover Cleveland are chiefly interesting." Introductions to the chapter divisions lend added interest to the collection for those who are unfamiliar with the progress of Cleveland's career. This present volume supplements logically Professor Nevins's Pulitzer-prize-winning biography, *Grover Cleveland: A Study in Courage*.
E. F. B.

International Affairs

SURVEY OF INTERNATIONAL AFFAIRS, 1932. By Arnold J. Toynbee, assisted by V. M. Boulter. New York: Oxford University Press, 1933. \$8.

DOCUMENTS ON INTERNATIONAL AFFAIRS, 1932. Edited by John W. Wheeler-Bennett, assisted by Stephen Heald. New York: Oxford University Press, 1933. \$6.50.

EVENTS in our world move so rapidly that what happened yesterday seems today to have already become hoary with age. Such is the feeling on picking up these volumes recently published under the auspices of the Royal Institute of International Affairs. Nevertheless, the competent discussion of the world economic crisis, of reparations and war debts, of disarmament, of developments in Northern Europe and in the Far East and of other events in 1932 is part of the indispensable background to a proper understanding of what is going on at present, all the more so as the lapse of over a year permits of greater perspective than would otherwise be possible. "In the history of a world-malady which was working itself out convulsively in a succession of paroxysms, the calendar year 1932," Mr. Toynbee remarks, "covers an interval of relative quiescence and torpidity between the preceding year 1931 and the extraordinary succeeding year 1933."
E. F. B.

OTHER RECENT BOOKS

WHITHER LATIN AMERICA? By Frank Tannenbaum. Introduction by James T. Shotwell. New York: Thomas Y. Crowell Company, 1934. \$2.

An introduction to the economic and social problems of Latin America. The author sets forth the surprising thesis that Latin America has no large-scale industrial future because it lacks the type of resources essential for a modern industrial civilization.

BRANDEIS: Lawyer and Judge in the Modern State. By Alpheus Thomas Mason. Princeton: Princeton University Press, 1933. \$2.

A study of the social and political philosophy of a celebrated member of the Supreme Court, a man whose work and ideas have affected the thinking of those now directing America's destinies.

The index for *CURRENT HISTORY*, Volume XXXIX (six months from October, 1933, to March, 1934, inclusive), may be obtained free of charge by applying to the Circulation Manager, *CURRENT HISTORY*, 229 West 43rd Street, New York, N. Y.

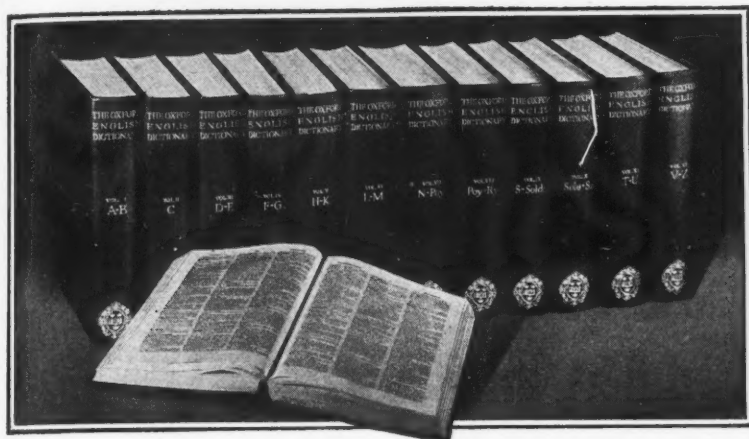
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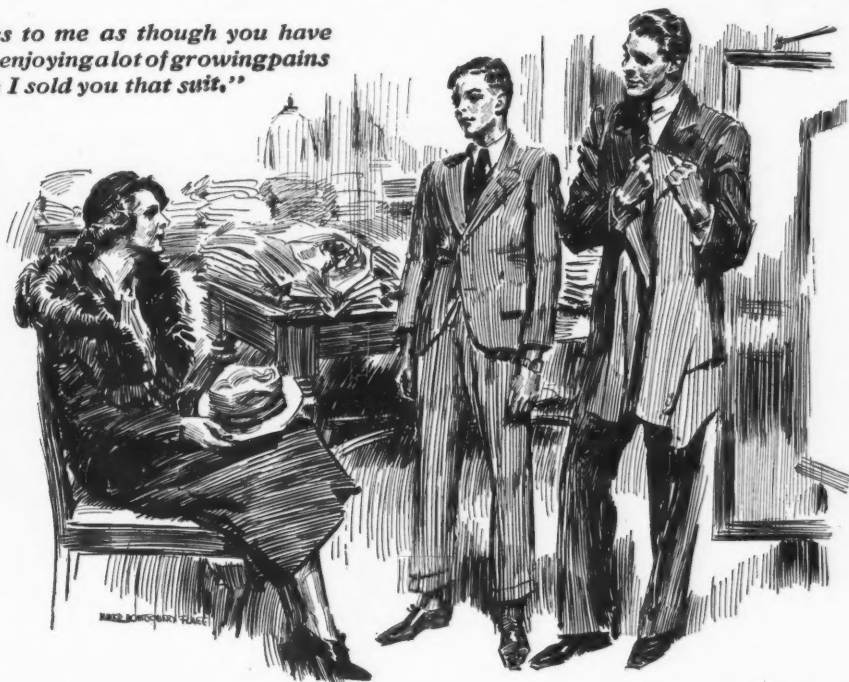
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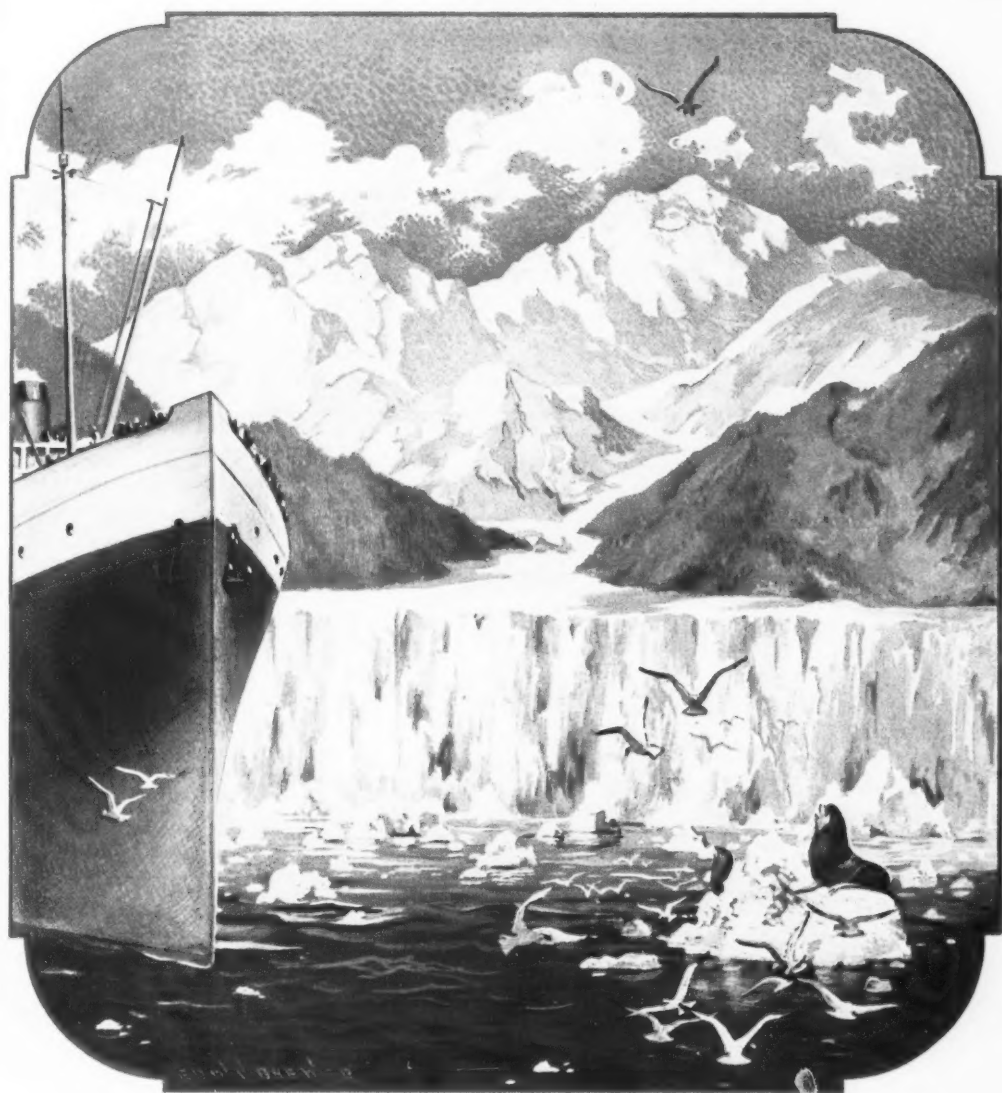
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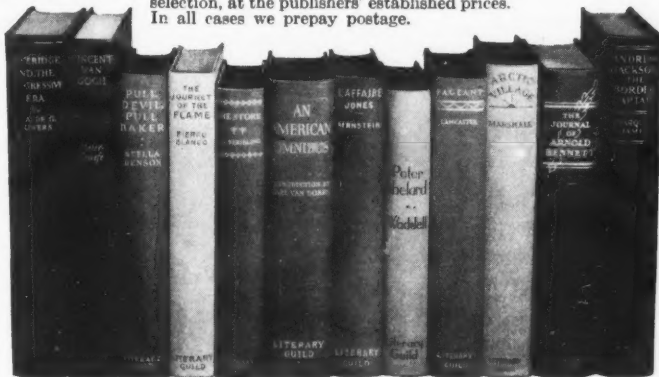
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